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LEGISLATIVE RESEARCH COMMISSION

REPORT
TO THE

1977
GENERAL ASSEMBLY OF NORTH CAROLINA

RETIREMENT AND ACTUARIAL SERVICES

RALEIGH, NORTH CAROLINA

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STATE OF NORTH CAROLINA
LEGISLATIVE RESEARCH COMMISSION
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January 12, 1977

TO THE MEMBERS OF THE GENERAL ASSEMBLY:

The Legislative Research Commission herewith reports to the 1977 General Assembly, the findings and recommendations of its Committee on Retirement System Matters. The Committee's study was authorized by Sections 11.3 and 11.8 Chapter 851 of the 1975 Session Laws and House Resolution 1200 of the 1975 General Assembly.

Respectfully submitted,

John T. Henley

James C. Green

Co-Chairmen

Legislative Research Commission

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INTRODUCTION

The Legislative Research Commission, authorized by Article 6B of Chapter 120 of the North Carolina General Statutes (G.S.), is a general-purpose legislative study group. Among the Commission's duties is that of making or causing to be made, upon the direction of the General Assembly or of either of its houses,

> such studies of and investigations into governmental agencies and institutions and matters of public policy as will aid the General Assembly in performing its duties in the most efficient and effective manner [G.S. 120-30.17(1)].

A list of the membership of the Legislative Research Commission will be found in Appendix A.

During the 1975 Session of the General Assembly the Legislative Research Commission was directed to conduct a variety of studies, among which were three relating to retirement systems funded by the State. House Resolution 1200 (see Appendix B) mandated a study of the advisability of extending unreduced retirement benefits to all State employees retiring prior to July 1, 1973, with 30 or more years of membership service in the Teachers' and State Employees' Retirement System.

Chapter 851 of the 1975 Session Laws (see Appendix C) directs two inquiries affecting the retirement systems. Sections 1 (15), 11.3, and 11.8(3) of that Chapter require a study of all aspects of actuarial services now furnished to all agencies of State government. Section 11.8 of Chapter 851 requires the Legislative Research Commission to look into the financing, benefits and operations of the Teachers' and State Employees'

Retirement System and the Local Governmental Employees' Retirement System (hereafter referred to, respectively, as the "TSERS" and the "LGERS").

To aid in these studies, the co-chairmen of the Legislative Research Commission, under the authority of G.S. 120-30.10(b) and (c), appointed a Committee on Retirement Systems' Matters (hereafter referred to as "the Committee"), consisting of additional members of the General Assembly and of the public. Representative Glenn A. Morris was appointed to chair the Committee. Senator Harold B. Hardison and Representative Claude DeBruhl were appointed to assist the chairman as co-chairmen.

The other members of the Committee were Representatives John R. Gamble, Jr., Charles W. Phillips, Bobby W. Rogers, and Barney P. Woodard; Senators Jack Childers, Edd Nye and Joe H. Palmer; Mrs. Linda Rader; Messrs. Floyd Bass*, Emmett Burden, Lloyd Isaacs, Andrew Jones, and Ernest McCracken; and Colonel Henry E. Kendall.

Because the subjects directed to be studied are so interrelated the Committee has decided to issue one document reporting on all of its work. To aid the reader in understanding the Committee's work, the divisions of this Report entitled COMMITTEE PROCEEDINGS AND FINDINGS AND RECOMMENDATIONS have been each further subdivided into the two major subject areas which were directed to be studied; i.e., (1) <u>Actuarial Services</u>, and (2) <u>The Teachers' and State Employees' and Local Governmental Employees' Retirement Systems: Financing, Benefits and Operations</u>. The subject of 30-year unreduced retirement to retired State employees will be found under the Benefits

subsection of the Retirement Systems division of this report.

*Mr. Bass replaced the original appointee, Mr. John Booker, who resigned on March 5, 1976.

COMMITTEE PROCEEDINGS

The Legislative Research Commission's Committee on Retirement Systems Matters held six meetings over a 15-month period--from October, 1975, to January, 1976. At the April 2, 1976, Committee meeting Representative Glenn A. Morris appointed a Drafting Subcommittee to prepare the Committee's report. Senator Harold Hardison and Representative Claude DeBruhl were appointed co-chairmen of the Subcommittee. Senator Jack Childers and Messrs. Ernest McCracken and Emmett Burden were appointed to be members of the Subcommittee. Mr. Lloyd Isaccs and Col. Henry E. Kendall were also appointed to the Drafting Subcommittee, but only to study the issue of extending unreduced retirement benefits to retired State employees who have 30 or more years of membership service and have contributed to the retirement system for 30 or more years. The Drafting Subcommittee held four meetings. The meetings held by the Committee and its Drafting Subcommittee were attended by a variety of persons interested in the subjects studied. Among the groups represented were actuaries, local governmental employees, State employees, the State Auditor, representatives from the Firemen's Pension Fund, the Law Enforcement Officers Benefit and Retirement Fund, and the Department of Treasurer. A complete list of witnesses will be found in Appendix D.

Actuarial Services

As was previously mentioned, Chapter 851 of the 1975 Session Laws (First Session, 1975) directed a study of actuarial services which are now rendered to State agencies. Section 11.3 of that Chapter requires the Legislative Research Commission to study the need for creation of a Division of Actuarial Services within the Department of State Treasurer. Whereas, Subsection 3 of Section 11.8 directed a "determination of the advisability of combining the . . . actuarial services" for certain public employee and public officer systems in North Carolina.

The Committee on Retirement Systems Matters decided at its organizational meeting to examine in detail

> the availability, quality, use and costs of the actuarial services furnished by private business to those agencies of the State requiring these services [Section 11.3 of Chapter 851].

During its deliberations on the subject of actuarial services the Committee heard from a variety of witnesses, including representatives of the State-administered retirement systems, the North Carolina Insurance Department, and several actuarial firms--George B. Buck Consulting Actuaries, Inc. of New York, Booke & Company of Winston-Salem, and Charles R. Dilts Associates of Durham.

An "actuary" has been defined as one

> whose profession it is to solve for Insurance Companies or the public, all monetary questions that involve a consideration of separate or combined effect of Interest and Probability, in connection with the duration of human life. . .[Oxford English Dictionary].

Mr. Hugh Gillespie of George B. Buck Consulting Actuaries, Inc. told the Committee that the actuary applies mathematics and accumulated experience to risks and contingencies and by doing so

makes "uncertainty less uncertain." Actuaries are divided into two general types by function--the life and casualty actuary and the pension actuary--the former having expertise in the insurance field and the latter having knowledge of retirement matters.

- Current Operations -

Two areas of State government on a regular and substantial basis receive the professional services of actuaries--the Department of Insurance and the retirement systems administered by either the Department of the State Treasurer or by the Department of the State Auditor.

Mr. Byron Tatum, Deputy Commissioner of Budget and Personnel for the Department of Insurance, explained the role that actuarial services play in the operations of that department. He stated that the Department of Insurance has allocated to it five actuarial positions. However, none of the five positions is filled by a member of any professional actuarial organization because these positions have low salary scales. Mr. Tatum estimated that a member of the American Academy of Actuaries would command a salary of from $35,000 to $40,000 a year plus additional fringe benefits which are not normally available in a governmental position.

The Department of Insurance employs actuarial assistance in two areas--the property and casualty; and the life, accident, and health insurance fields. Actuarial work in the property and casualty areas involves an analysis of rate filings to determine whether the rates requested in a filing are reasonable considering the loss experience presented in the filing. Two employees designated as actuaries work in the Property and

Casualty Division of the Department.

The life, accident and health personnel audit insurance companies to determine if an individual company's financial reserves are adequate. There are three departmental employees working in this field. In addition, the Department of Insurance frequently hires private actuaries to supplement the work and expertise of the departmental personnel. Both salaries of the in-house and the fees of the private actuaries employed to audit the insurance companies are supported by receipts gathered from the insurance companies being audited. Mr. Tatum's statement is attached as Appendix E.

The State-funded retirement systems of the State all employ a single private firm to provide their required actuarial services. George B. Buck Consulting Actuaries, Inc. of New York assisted in planning the first State-administered retirement system in North Carolina--the Teachers' and State Employees' Retirement System. The Buck firm has provided the regular actuarial services required by the TSERS since its inception on July 1, 1941. As each of the newer State-administered retirement systems has been established--Law Enforcement Officers' Benefit and Retirement Fund in 1942, Local Governmental Employees' Retirement System in 1945, Firemen's Pension Fund in 1963, the Uniform Solicitorial Retirement System in 1974, the Uniform Judicial Retirement System in 1973, and the Uniform Clerks of Superior Court Retirement System in 1975--George B. Buck Consulting Actuaries, Inc. has been awarded the contracts of providing actuarial services to each system.

The duties of the actuary in the largest State-funded retirement system--the TSERS--are representative of his duties in

all the other retirement systems. By G.S. 135-6 the designated actuary is

> the technical adviser of the Board of Trustees [Teachers' and State Employees' Retirement System] on matters regarding the operating of the funds created by the provisions of this Chapter and shall perform such other duties as are required.

The actuary's statutory duties also include investigating once every five years the mortality, service, and compensation experience of the members and beneficiaries of the Retirement System (G.S. 135-6(n) and making an annual valuation of the assets and liabilities of the funds of the TSERS (G.S. 135-6(o)). From the knowledge gained in the actuarial investigation and the annual valuation, the actuary, where he feels it necessary, suggests changes in the actuarial assumptions for the board of trustees of the concerned system to make. The actuary also keeps the boards of trustees of each system abreast of current developments in law and public policy concerning all aspects of retirement.

Besides the statutory duties the actuary also aids in the drafting of statutes modifying the structure of retirement systems, appears at legislative committee meetings, and provides cost estimates to proposals for future changes in the system. The statements on actuarial services of Mr. Hugh Gillespie of the Buck firm, Mr. William H. Hambleton of the Department of the State Treasurer, and State Auditor Henry L. Bridges are attached respectively as Appendices F, G, and H.

- Federal Pension Reform Legislation -

The Employee Retirement Income Security Act of 1974 (P.L. 93-406, hereafter referred to as "ERISA") was passed by

Congress to provide stringent standards regarding the financing and operations of private employer pension plans. That act also created a class of actuaries, known as "enrolled actuaries," who will be authorized to prepare the various actuarial reports and statements required by the act. ERISA has, it was reported by Mr. Gillespie of the Buck firm, created an unprecedented demand for qualified actuaries.

The extension of provisions similar to those of ERISA to public employees' retirement systems appears likely within the next few years. A bill is already before Congress to accomplish this matter (H.R. 9155, 94th Congress, 1st Session). If such legislation were to pass, there would be a correspondingly increasing premium placed on qualified actuaries.

- Costs -

State-administered retirement systems paid a total of $24,900 for actuarial services in 1965. By 1974 the figure was $77,937. Employing the estimates of the retirement agencies themselves, it is expected that in 1980, $73,200 will be spent to provide actuarial services to the retirement systems.

When the nonreimbursable actuarial costs of the Department of Insurance are added to the actuarial costs of all retirement systems, the grand totals of actuarial costs to State agencies becomes $38,172 for the year 1965; $119,457 for the year 1974; and an estimated $114,642 for the year 1980. Appendix I shows the actual and estimated actuarial costs for each retirement system separately and the Department of Insurance for the years 1965 through 1980. Appendix J shows the actuarial cost trends for the retirement systems and Department of Insurance

separately, while Appendix K shows the combined actuarial costs.

Administrators of the retirement systems and the actuary for the systems pointed out to the Committee that the peaks in actuarial costs coincide with legislative modifications of the systems resulting in the need for new evaluations of either the systems, the proposals, or both.

- General Assembly -

During the meetings several of the Committee's legislator members raised the issue of the adequacy and availability of actuarial services to the General Assembly, especially in the area of evaluation of legislative proposals affecting the retirement systems.

Some expressed concern that any actuary hired by the boards of trustees of the various retirement systems, because of his status as an employee of the agency, would not be as objective in publicly evaluating proposed changes in the financing or benefits of the systems as may be desired.

It was suggested that the General Assembly needs independent and objective actuarial advice when passing on proposed modifications of the benefit or financial structure of the State-administered retirement systems.

Teachers' and State Employees' and Local Governmental Employees' Retirement Systems:

Financing

Pursuant to the charge contained in Section 11.8 of Chapter 851 of the 1975 Session Laws, the Committee investigated the financing structure of both of the largest State-administered retirement systems. The benefits available to members of the TSERS and LGERS are financed from funds accruing from one or more of the following sources: employees' contributions, employers' contributions, direct appropriations by the General Assembly, and interest, dividends and capital gains from investments. Teachers, State employees, and local governmental employees have 6% of their compensation deducted to fund their respective retirement systems as employee contributions (G.S. 135-8 and G.S. 128-30). The monies collected are deposited in the respective systems' annuity savings funds.

For the 1975-1977 biennium, the General Assembly appropriated funds for salaries for teachers and State employees based upon an employer contribution rate of 8.95% to the TSERS. The General Assembly also set aside additional sums in reserve for retirement purposes. The General Assembly apparently relied upon a total maximum employer contribution rate of 9.12% in making these appropriations. The Board of Trustees of the TSERS on July 1, 1976, set an employer's contribution rate of 9.22% of employees' compensation.

Representative Claude DeBruhl asked the Attorney General's office for an opinion on the extent of the power of the Board of Trustees to set the employer's contribution rate. The Attorney General's office responded that

> the Board of Trustees of the Teachers' and State Employees' Retirement System has the power to set an employer contribution rate for the Retirement System . . . without regard to the rate used by the General Assembly in determining the amount appropriated in the Current Operations Budget Act [see Appendix L].

The actuarial assumptions as of December 29, 1975, upon which the Teachers' and State Employees' and Local Governmental Systems are based are found in Appendix M. That same appendix shows the unfunded accrued liability of each system in dollars and as a percent of payroll, the period in years to liquidate the unfunded accrued liability, and the dollar reserve for retirement allowances. Appendix N compares the liquidation period for unfunded accrued liability, the interest rate assumptions and the interest credited to members' accounts in the two largest North Carolina systems to the systems existing in seven other southeastern states. Unfunded accrued liability is the excess of the actuarial liability of a system over the value of the system's cash and investment. (See Bleakney, T. P.; <u>Retirement Systems for Public Employees</u>; Richard D. Irwin, Inc.; Homewood, Ill., 1972).

Benefits

The Committee undertook an investigation into the major retirement benefits available to presently retiring members of either North Carolina system. An inquiry into how these benefits compared with those of similar systems in other southeastern states was included in the investigation as was directed by Section 11.8(2) of Chapter 851.

The second part of the Committee's probe into the systems' benefit structures concerned the relative adequacy of the benefits of employees who have already retired. The Committee looked at what provisions had been made to assure post-retirement adjustments under the North Carolina systems. The Committee undertook a survey to compare the North Carolina post-retirement adjustments to benefits with those of 60 other jurisdictions. Another Committee survey, employing hypothetical retirees in specific fact situations, sought to illustrate generally how the benefits received by individuals already retired from one of the North Carolina systems compared with those received by past retirees of similar systems in other southeastern states.

Presently Retiring Members

A common feature of most retirement systems is the "leapfrogging effect," which is the catching up or surpassing by one retirement system the benefits sought and received earlier by members of another system.

The phenomenon of leapfrogging has been known to occur in the public employee retirement systems of this State. The most recent example happened during 1975 and 1976. By Chapter 457 of the 1975 Session Laws (First Session, 1975), which became effective on July 1, 1975, the General Assembly increased substantially the benefits received by those members of the TSERS retiring after that date.

During the deliberations of this Committee, the 1976 General Assembly, by Sections 125 through 130 of Chapter 983 of the 1975 Session Laws (Second Session, 1976) attached as Appendix O, granted to members of the LGERS retiring after July 1, 1976, the same increases in benefits which had been granted a year earlier to teachers and State employees, and the General Assembly increased the employers' contribution rate in the LGERS to 6% of employees' compensation. This report discusses the benefits of each system as they were in effect on July 1, 1976.

- Normal Service Retirement -

A North Carolina teacher or State employee, or a member of the LGERS, may receive a normal service retirement allowance after completing 30 years of creditable service regardless of age or on or after his 65th birthday, regardless of service. The normal service retirement allowance is equal to 1 1/2% of average

final compensation of the retiring member multiplied by the number of years of creditable service (G.S. 135-5(b5)(1), G.S. 128-27(b5)(1). The citations to Chapter 135 of the General Statutes refer to the TSERS and the citations to Chapter 128 of the General Statutes refer to the LGERS). The allowance is paid annually in equal monthly installments (G.S. 135-1(3) and (16), G.S. 128-21(3) and (15)).

The term "average final compensation" is defined as

> the average annual compensation during the four consecutive calendar years of membership service producing the highest such average [G.S. 135-1(5), G.S. 128-21(5)].

Important in figuring the normal service retirement allowance is the number of years of creditable service rendered by the employee. In addition to the service that the employee rendered while a member of the applicable system, other types of creditable service include but are not limited to service with employer prior to the creation of the retirement systems; sick leave standing to the credit of the employee upon retirement; restored previous creditable service lost when funds in a retirement account are withdrawn; service in the United States Armed Forces; service credit purchased for service previously rendered to any state, territory or other governmental subdivision of the United States; and service rendered while on leave of absence (G.S. 135-4, G.S. 128-26).

While pursuing its investigation of the benefit structure, the Committee received letters from citizens of this State requesting that the laws regarding creditable service be amended so as to permit credit under the TSERS for periods of service with the federal government. Mr. Lloyd Isaacs, a

Committee member, informed the Committee that this proposal was rejected by the General Assembly in 1974.

Mr. William H. Hambleton, of the Department of the State Treasurer, stated that he believed that this type of transfer should not be recognized because not only were there no contributions to the system at the time of such employment but also federal government retirement systems do not recognize credit for State service.

- Unreduced Retirement Benefits -

As has been mentioned under the preceding heading, a member of either North Carolina system, upon completing 30 years of creditable service, may receive his normal service retirement allowance unreduced because of his age at retirement. House Resolution 1200 of the 1975 Session directed a study of the advisability of only providing unreduced retirement benefits to all State employees, regardless of their age at retirement, who

1. have retired prior to July 1, 1973;
2. have been a member of the TSERS and have contributed to that system for 30 or more years.

At the outset it is necessary to highlight two significant points in the Resolution as drafted and passed. The Resolution speaks only to consideration of

1. unreduced retirement for State employees with prior service, not teachers; and
2. providing such benefits to those who have contributed to the Teachers' and State Employees' Retirement System for 30 years or more. The Resolution seeks to restrict the study to those

with the applicable period of membership in the system and specifically exempts out-of-State service from consideration. Arguably it also would exempt all other creditable service granted under G.S. 135-4 from computation in the formula for unreduced retirement benefits.

Mr. Dennis Ducker, Assistant Director of the Employees' and Health Benefits Division of the Department of the State Treasurer, argued to the Committee against the extension of such unreduced retirement stating that "traditionally, changes in benefit structures come prospectively and that the making of every benefit change retroactive (to prior retirees)...would, in effect, cause the system never to be able to make any changes because of the immense cost" involved in making retroactive payments.

Mr. William H. Hambleton, Director of the Retirement and Health Benefits Division of the Department of the State Treasurer, stated that

> the basic premise of a retirement system (is that) the individual is entitled, at the time he retires, to the benefits which the law provides at that time.

He also stated that he believed the extension of unreduced retirement benefits to only those who had retired with 30 or more years of membership service to be an unfair limitation since under the present law the unreduced retirement benefit is figured on all service creditable under G.S. 135-4. Impliedly, teachers should be treated equally with State employees for purposes of receiving benefits from the system.

Mr. Hambleton presented to the Committee figures compiled by his office on all State employees <u>and</u> teachers who

have retired prior to July 1, 1973, estimating the costs of implementing unreduced retirement for these persons (see Appendix P). He told the Committee that if the General Assembly were to grant unreduced retirement benefits to all teachers and State employees who retired between July 1, 1971, and June 30, 1973, who had 30 or more years of membership service, 156 retirees would be affected. That benefit revision would cost $925,027. If the benefit was extended to those members retiring during that same period who had 30 or more years of service presently creditable under G.S. 135-4, it would affect 495 persons and cost $2,935,050. Appendix P shows the cost of extending such benefits to all past retirees. The Department of the State Treasurer estimates that such a benefit revision would cost a total of $16,904,603.

- Vesting of the Right to Retire -

The right to retire on a deferred retirement allowance upon attaining 60 years of age devolves upon each member of either system who has completed at least five years of creditable service and who has left his total accumulated contribution in the applicable system (G.S. 135-3(8)(a), G.S. 128-24(8)(a)).

- Early Retirement -

A member of either system may retire before completion of 30 years of creditable service or reaching his 65th birthday. The benefit structure of the systems, however, discourages early retirement.

A teacher, State or local governmental employee, or a former such individual having five or more years of creditable

service may retire early between the ages of 60 to 65. His retirement allowance will be figured on the same basis as the normal service retirement allowance and will be reduced 1/4th of 1% of that allowance for each month that the retirement date precedes his 65th birthday (G.S. 135-5(b5)(2), 128-27(15)(2)).

A member of either system may retire between the ages of 50 and 60 if he has 20 or more years of creditable service. Such an individual's retirement allowance will be equal to the deferred allowance otherwise payable at age 60 but further actuarially reduced to his age at retirement (G.S. 135-3(8)(b), 128-27(b)(5)(2A).

- Disability Retirement Allowances -

A member of either system, who has at least five years of creditable service and who is certified as mentally or physically unable to further perform duty may be retired on a disability retirement allowance if the incapacity was suffered at the time of active employment and is likely to be permanent (G.S. 135-5(c), 128-27(c)). The disability retirement allowance will be computed on the same basis as the normal service retirement allowance as if the disabled retiree had continued in his employment until age sixty-five (G.S. 135-5(d3), 128-27(d3)).

- Options In Lieu of Maximum Allowance -

Upon normal service, disability, or early retirement, the retiree may select either the maximum allowance outlined above which ceases at his death or one of the six optional plans set forth in either G.S. 135-5(g) or 128-27(g). The options have been designed to provide financial protection for the retiree's

family at his death.

- Death Benefit -

The designee of a teacher or State employee, who has completed one year of membership service and who dies in service, receives as a death benefit an amount equal to the deceased member's compensation earned in the year preceding his death, not to exceed fifteen thousand dollars (G.S. 135-5(l)). Death benefit provisions identical to those for teachers and State employees are provided to members of the LGERS whose employers agree to the provisions (G.S. 128-27(l)).

During the Committee's discussion of death benefits, Mr. Lloyd Isaacs pointed out that under G.S. 143-166.1 through 143-166.7 a death benefit of twenty-five thousand dollars is paid to the surviving spouse, dependent child or other dependent of a law enforcement officer, fireman, rescue squad worker and Civil Air Patrol member who dies while in discharge of his official duties. Mr. Isaacs stated that he believed that death benefit provisions should be the same for all public officers and governmental employees under the North Carolina retirement systems.

- Survivor's Alternate Benefit -

Normally upon the death in service of a member of either system a return of that member's contributions plus accrued interest is made to a person designated beforehand by the deceased member. However, if, when he died in service, the member was over 55 years of age, or had 30 or more years of creditable service, or had been eligible to retire early, the designated beneficiary may choose a monthly benefit for life

instead of the return of the deceased's contributions and accrued interest (G.S. 135-5(m), 128-27 (m)).

- Disability Salary Continuation Plan -

G.S. 135-34 directs the Board of Trustees of the TSERS to establish a disability salary continuation program for teachers and State employees with one or more years of service. The purpose of the program is to provide these teachers and State employees who are disabled for a continuation of a reasonable portion of their normal salaries.

These individuals will receive 60% of their basic monthly salary up to a maximum of $1,000 a month. Benefits from this Plan are coordinated with benefits which that disabled individual may be eligible to receive from other plans. Coordination means that this Plan will provide 60% of the disabled individual's basic monthly salary (up to a maximum of $1,000 a month) when added to what other benefits the disabled individual might be eligible. These other benefits include Social Security, Workmen's Compensation, and retirement payments.

The Plan was created in 1971. The General Assembly last appropriated funds for the Plan for the 1974-1975 fiscal year. Benefits now being received under the Plan are being paid from reserve funds.

As of December, 1976, there were 763 persons receiving monthly benefits under the Plan. As of December 31, 1975, there were about 170,000 active members of the Plan. For the 1975 calendar year there were assets in the fund of $16,625,953; an outflow of $1,023,984; and estimated claims liabilities of $6,393,380. The Systems' actuary estimates that this Plan should

be funded at 0.156% of gross payroll of teachers and State employees.

- Retirement Benefits as a
Percentage of Average
Final Annual Compensation -

The Department of the State Treasurer, upon request, supplied the Committee with information showing the annual Social Security and retirement benefits received by a teacher or State employee who retires at the present time on his 65th birthday with 30 years of creditable service in the System at specified average final annual compensation levels from $6,000 to $25,000 (See Appendix Q).

The chart shows that at each level of compensation the annual retirement benefit is 45% of the average final annual compensation. When Social Security benefits are added to those received from TSERS, the total ranges from 103% of average final compensation at the $6,000 level to 64% at the $25,000 level of average final annual compensation. Under the benefit formula which came into effect on July 1, 1976, the same figures would also be applicable to similarly-situated members of the LGERS.

- Comparison of System's Retirement
Benefits to those of Selected Private
North Carolina Employers -

The tables in Appendix R shows how the benefits provided by the largest North Carolina public employee retirement system compare with those of selected private employee systems in this State. Although the tables compare the benefits to presently

retiring members of the TSERS, it is, of course, equally applicable to the schedule of benefits of the LGERS which became effective on July 1, 1976.

For the comparison five private retirement plans were examined. The table indicates that of the systems examined the North Carolina teacher or State employee or, by extension, the local governmental employee, in the hypothetical fact situation given, would receive more by way of a total retirement benefit (including Social Security benefits) than an employee of any of the private firms. However, four of the five private employers' plans do not require any contribution by the employee and thus are basically pension plans.

- Comparison of North Carolina's Benefit Structure with those of Selected Other States -

The Committee asked the Department of the State Treasurer to produce charts comparing the retirement benefits available to North Carolina teachers and State and local governmental employees with those in seven other Southeastern States--Alabama, Florida, Georgia, Kentucky, South Carolina, Tennessee and Virginia. Three separate charts were necessary because some states--Alabama, Georgia, and Kentucky--have separate systems for teachers and for state employees. These charts are attached as Appendices S, T, and U.

The comparison of teachers' benefits, Appendix S, page 1, shows that the <u>vesting</u> <u>period</u> for North Carolina teachers, 5 years, is surpassed only by Tennessee's 4 years, equals the Kentucky and Virginia periods, and surpasses those of the other four states. The vesting periods for state employees in the

southeastern states, Appendix T, page 1, are the same as for the teachers with the exception of the Kentucky system, which is 3 years higher than that of the North Carolina system. The comparison for local governmental employees, Appendix U, page 1, shows that the North Carolina vesting period again is surpassed only by Tennessee, equals that of Virginia, and is more liberal than that of the other four states having such a system.

Creditable service, page 1 of each comparison, granted to North Carolina State and local governmental employees and teachers is generally as liberal as any of the other systems studied. The South Carolina systems allow periods of maternity leave to be computed in determining creditable service.

Years to determine average final compensation--the four consecutive years producing the highest compensation in the career for North Carolina teachers, state and local governmental employees--are compared on page 1 of the Appendices. The survey shows that this state's provisions in this regard are generally in the middle of the systems studied. For teachers and local governmental employees, four states have more stringent provisions and three states reduce to three years the formula to determine average final compensation.

The comparison of each state's formulas for normal, disability and early retirement allowances are found on page 2 of each of these Appendices. North Carolina's percentage factor, 1 1/2%, in the formula for normal retirement benefits, is not as great as the majority of the other states studied.

Annual costs of increasing the present benefit formula by changing either the percentage figure or lowering the number of years to determine average final compensation or both are

found in the tables below. The estimates are those of the systems' actuary.

TABLE A

Costs of Increasing the Percentage Factor While Retaining the Current Four Years to Determine Average Final Compensation in the Teachers' and State Employees' and Local Governmental Employees' Retirement Systems.

Increase in Percentage Factor	Percentage of Necessary Increase in Employer Contribution Rate	Estimated Annual Cost (in dollars)
Teachers' and State Employees' Retirement System		
1.55	.60	8,695,289
1.60	1.20	17,390,578
1.65	1.81	26,230,788
1.70	2.41	34,926,077
1.75	3.01	43,621,366
Local Governmental Employees' Retirement System		
1.55	.53	1,336,541
1.60	1.05	2,647,864
1.65	1.58	3,984,405
1.70	2.11	5,320,945
1.75	2.63	6,632,269

TABLE B

Costs of Increasing the Percentage Factor While Reducing to Three Years the Number of Years to Determine Average Final Compensation in the Teachers' and State Employees' and Local Governmental Employees' Retirement Systems.

Increase in Percentage Factor	Percentage of Necessary Increase Employer's Contribution Rate	Estimated Annual Cost (in dollars)
Teachers' and State Employees' Retirement System		
1.50	.34	4,927,330
1.55	.95	13,767,541
1.60	1.56	22,607,752
1.65	2.18	31,592,884
1.70	2.79	40,433,094
1.75	3.40	49,273,304
Local Governmental Employees' Retirement System		
1.50	.30	756,533
1.55	.83	2,093,074
1.60	1.37	3,454,832
1.65	1.90	4,791,373
1.70	2.44	6,153,132
1.75	2.97	7,489,672

The comparison on the matter of unreduced service retirement is found on page 3 of Appendices S, T, and U. These sheets show that North Carolina, with its provisions for unreduced service retirement after thirty years of creditable service, is as generous as any of the other studied systems for teachers or state and local governmental employees.

On the same page is shown the death benefit formulas of the systems. The Committee noted that two of the states had no death benefit provisions for teachers and that two others, Alabama and Kentucky, would probably grant, in a case by case determination, less than North Carolina in death benefits. The other three systems would have to be compared on a case by case basis. Again, the North Carolina system for teachers is probably more generous than a majority of the other systems observed. Substantially similar conclusions could be drawn about comparisons of the state and local governmental employees' systems.

From the comparison on page 3 of the Appendices regarding Social Security Integration, the Committee observed that the majority of systems, including those of North Carolina, make their retirement benefits additional to those of Social Security. Kentucky teachers' and local governmental employees' systems benefits are not integrated with the Social Security benefits and thus these groups do not receive Social Security benefits for their work under those systems. Virginia limits its retirement benefits to its teachers and state and local governmental employees to 100% of average final compensation plus one half of the Social Security benefit.

- Hypothetical Fact Situation Comparisons -

The Committee realized that a bewildering number of factors -- among them; percentages, years of creditable service, years to determine average final compensation and integration with Social Security benefits -- are computed in a normal, disability, or early-retirement allowance formula.

The Committee was concerned with how an individual's normal retirement allowance, given a particular fact situation, varies from system to system. The Committee asked the Department of the State Treasurer, in its survey of the other southeastern states, to inquire what an individual retiring on July 1, 1976 would receive from the various systems. The results of this study will be found in each of Appendices S, T, and U on page 4 to the left of the double line.

The hypothetical situations given were those of the particular type of employee retiring on July 1, 1976, at the age specified, earning $10,000 for the last 10 years preceding retirement and having 30 years of creditable service within the specified system.

Such a North Carolina teacher, retiring at age 62, would tie fourth from the highest in total monthly benefits (for the purposes of this report defined as the total of the retirement systems and Social Security benefits) received of the eight systems studied. If he retired at age 65, his total monthly benefits would again tie with those of his fellow teachers from Virginia but his ranking would decrease by one to fifth.

Kentucky does not contribute to the Social Security plan for its teachers but does for its state employees. For this

reason, the placement of a North Carolina state employee in the given hypothetical situation retiring at age 62 or at age 65 would slip an additional place in each.

The total monthly benefits of a North Carolina local governmental employee retiring at age 62 would rank after two of the seven state systems having such systems. Georgia has none. Retiring at age 65, such an employee's total monthly benefits would tie for last place with those of a similarly-situated employee in Virginia.

The table below shows another comparison using the same figures obtained from the hypothetical fact situation.

TABLE C

Comparison of North Carolina Total Monthly Benefits (Retirement System's plus Social Security's) for a Hypothetical Member Retiring at the Present to the Average Such Benefits of the States Surveyed* as of July 1, 1976.

	North Carolina (in dollars)	Average of States Surveyed (in dollars)
Teachers		
Age 62	654	656
Age 65	743	744
State Employees		
Age 62	654	679
Age 65	743	790
Local Governmental Employees		
Age 62	654	676
Age 65	743	778

*Rounded off to nearest dollar

Past Retirees

- Cost of Living Adjustments

Fiscal Years 1975-1976 and 1976-1977 -

The General Assembly has in past years granted increases in benefits paid to past retirees and other beneficiaries of both systems (G.S. 135-5(j), (k), (o), (p), (q), (s), (t), (u), (v), (w) and (x); 128-27 (j), (k), (n), (o), (p), (q), (r), (s) and (t)). Most of these provisions mandate a fixed percentage of amount of benefit increase. In 1975 and 1976 the General Assembly granted to beneficiaries of the TSERS and LGERS up to an 8% increase each year in their retirement allowances, provided that the increase does not exceed the cost-of-living percentage increase for the particular year. The cost of these increases were to be borne from the funds of each system. (G.S. 135-5(v) and (w); 128-27 (r) and (s)). Using this formula, an 8% cost-of-living increase was granted to beneficiaries on July 1, 1975, and a 7% increase was so granted on July 1, 1976.

- Permanent Provisions -

The permanent provisions for increases to retirement benefits paid under each system are found in G.S. 135-5(o) and G.S. 128-27(k). The statutes clearly tie the increases to be granted to the Consumer Price Index and thus to cost-of-living increases. These statutes provide that the gains are to be calculated to the nearest one-tenth of one percent (1/10 of 1%) rise in the Consumer Price Index but shall not exceed four percent (4%) each year. The law governing the TSERS states that cost-of-living increases are effective only if the additional liabilities resulting from these increases "do not require an

increase in the total employer rate of contributions".

The increases granted under these sections are permanent, that is, the granted gains will not be affected by a future decrease in the Consumer Price Index. Also the previously granted increases are to be computed into determining any future increase.

- Comparisons -

The Committee was interested in learning what other states' public employee retirement systems had done with respect to permanent or continuing cost-of-living increases for past retirees. The Department of the State Treasurer was asked to make such a survey. The result is attached as Appendix V.

Of the 79 systems polled nationwide, the Department of the State Treasurer received 61 responses or 77% of the systems asked. These responses represented retirement systems in 42 of the states.

Mr. Hambleton informed the Committee that most states, North Carolina among them, have followed the "ad hoc" approach to cost-of-living increases. The states using this approach have granted single increases from time to time; and the increases are supported by direct appropriation.

Of the 61 systems responding to the survey, 37 have permanent or continuing provisions for cost-of-living increases, and 24 do not. In those systems having permanent or continuing cost-of-living provisions, 5 of the systems grant a percentage increase in benefits each year, 22 tie the increases in some way to a consumer price index and 10 other formulas. Among the latter group the following provisions are of interest:

Maine combined systems--retired members receive increases identical to percentage increases in salary for active employees, and

Minnesota teachers system--increases granted when investment yield is 2% in excess of the assumed rate.

Besides investigating the various permanent cost-of-living adjustment formulas, the Committee learned how the normal retirement benefits which are received by past retirees of the North Carolina systems and which include past cost-of-living adjustments compare with those of other systems. The Committee asked that the survey of other southeastern states conducted by the Department of the State Treasurer contain a table showing what a hypothetical past retiree would receive as retirement benefits under the various systems. The comparison will be found in Appendices S, T and U on page 4 to the right of the double line.

The hypothetical fact situation given is that of a past retiree in each of the North Carolina systems who retired five years ago at a particular age having earned $10,000 a year for the last 10 years of his employment, and having 30 years of creditable service at his retirement.

The total monthly retirement benefits (retirement system's benefits plus Social Security benefits) of a North Carolina teacher or state employee in the given hypothetical fact situation who retired at age 65 would list third from the bottom in a ranking of such benefits received by similarly-situated past retirees of the other states' systems. The total monthly benefits of a past retiree of the North Carolina Local Governmental Employees' Retirement System who retired at age 65 given the hypothetical fact situation would rank behind four of

the seven southeastern states having local governmental employees' retirement systems.

The table below shows the total monthly retirement benefit paid to a North Carolina teacher, state or local governmental employee and the average benefits paid to similarly-situated past retirees of all systems.

TABLE D

Comparison of North Carolina Total Monthly Retirement Benefits (Retirement System's plus Social Security's) for a Hypothetical Past Retiree to the Average Such Benefits of the States Surveyed* as of July 1, 1976.

	North Carolina Past Retiree (in dollars)	Average Past Retirement (in dollars)
Teachers		
Age 62	659	661
Age 65	741	774
State Employees		
Age 62	659	661
Age 65	741	774
Local Governmental Employees **		
Age 62	659	661
Age 65	741	774

* Rounded off to nearest dollar

** Georgia does not have a statewide local governmental employee retirement system.

- Price of Cost-of-Living Increases -

The retirement systems' actuary gave the Committee his estimates of the annual cost of providing a permanent cost-of-living increase to both systems and its reflection as an increase in the percent of employer's contribution rate. The table below sets forth these figures.

TABLE E

Estimates of Cost and Increase in Employer Rate of Contribution in Providing a Permanent Cost-of-Living Increase under the Teachers' and State Employees' and Local Governmental Employees' Retirement Systems

Percent of Annual Cost of Living Increase	Estimated Percentage Increase in Employer Rate of Contribution	Estimated Annual Cost in Dollars
Teachers' and State Employees' Retirement System		
1	1.95	28,259,689
1 1/2	2.93	42,461,994
2	3.90	56,519,378
2 1/2	4.88	70,721,683
3	5.85	84,779,067
3 1/2	6.83	98,981,373
4	7.80	113,038,756
Local Governmental Employees' Retirement System		
1	1.70	4,287,018
1 1/2	2.55	6,430,527
2	3.40	8,574,035
2 1/2	4.25	10,717,544
3	5.10	12,861,053
3 1/2	5.95	15,004,562
4	6.80	17,148,071

Operation

The Committee on Retirement Systems Matters investigated the administration of each of the retirement systems financed in whole or in part by the State. The Committee heard from officials in the Department of the State Auditor, who administer the Law Enforcement Officers' Benefit and Retirement Fund and the Firemen's Pension Fund. Officials from the Department of the State Treasurer also spoke to the Committee on the retirement systems which they administer: TSERS, LGERS, the Uniform Judicial Retirement System, the Uniform Solicitorial Retirement System, the Uniform Clerks of Court Retirement System, and the Legislative Retirement Fund for those legislators whose rights vested prior to that Fund's repeal (G.S. 120-4.2).

Mr. Hambleton of the Treasurer's Office also presented the Committee with a 1974 survey of the cost of administration of various public employee retirement systems in 53 American jurisdictions (see Appendix W). Of the systems on which information was available the average annual cost of administration was $8.85 per member, while in the North Carolina Teachers' and State Employees' Retirement System the average annual cost of administration was $4.68 per member.

FINDINGS AND RECOMMENDATIONS

Pursuant to Chapter 851 of the 1975 Session Laws (First Session, 1975) and House Resolution 1200 of the 1975 General Assembly, the Legislative Research Commission's Committee on Retirement Systems' Matters makes the following findings and recommends the following courses of action regarding the subjects of its inquiry:

Actuarial Services

Finding 1: The present actuarial services rendered to the various State-administered retirement systems appear to be adequate in view of their availability, quality, use and costs. Representatives of each of these retirement systems have voiced the satisfaction of each system's respective board of trustees in the work of its actuary--George B. Buck Consulting Actuaries, Inc.

That firm is one of the oldest and most respected actuarial firms in this country. The depth of the expertise of the Buck firm, which has over 400 employees, is reflected in the fact that it services the employee benefit plans of more than one thousand clients. These clients run the gamut from industrial to every level of governmental activity.

Given the cost projections supplied by the Departments of Insurance, State Auditor and State Treasurer, the savings in cost of actuarial services would not be likely.

Finding 2: Because of the long-standing relationship between the retirement systems and the present actuary, the boards of trustees of the respective systems have not given

serious consideration to awarding the actuarial services contract to another firm.

Finding 3. The actuarial services now rendered to the General Assembly are inadequate. The General Assembly--the principal policy-making body in state government--must presently depend almost entirely upon an employee of the agencies involved to evaluate the financial effect of proposals which the agencies make. The research arm of the General Assembly relating to money matters--the Fiscal Research Division of the Legislative Services Commission--does not now employ an actuary. Actuarial reports on and valuations of each of the retirement systems are not now distributed, as a matter of course, to the membership of the legislature or to the Legislative Library. These items are available only upon request by legislators.

Recommendation 1: A Division of Actuarial Services should not now be established within the Department of the State Treasurer. The Committee has carefully researched the needs of all State agencies now receiving the services of an actuary. The Committee has concluded that, because of the differences in the types of actuarial services needed by the Department of Insurance and the retirement systems, and the uncertainty resulting from federal pension reform legislation as to numbers and costs of available actuaries, the establishment of a single State actuarial agency at this time would be impractical. The Committee notes here that North Carolina's proposed establishment of such a single agency is without precedent in the 40 jurisdictions responding to a survey on this matter. The Committee feels that should a State actuarial services agency be established, the agency should be fully independent of any State

department employing the services of the agency.

<u>Recommendation 2: The authority of the boards of trustees of each retirement system to select their own actuaries should not be changed now.</u> The selection of professionals, such as actuaries, is a decision administrative in nature. The various retirement systems' boards have the immediate responsibility of administering and controlling the functioning of each system. An integral facet of the direction and control of each system is the supervision of its immediate and future financial well being. The role of the actuary is critically important to the functioning of each system. Since a close working relationship is necessary between the actuary and governing board, the Committee is of the opinion that the statutory structure regarding employment of actuarial services by retirement systems ought to be continued in its present form for the immediate future.

<u>Recommendation 3: The board of trustees of each system, prior to termination of the current contracts with the actuary, should examine the qualities of all firms which have an interest in providing actuarial services to the system, and ought to award the new contract to the firm which would be best for the retirement system. In the event that two or more firms, one of which is a resident of this state, are equal in quality, cost and all other relevant factors, then the board of trustees should prefer the North Carolina firm in awarding the contract.</u>

The Committee believes that there may well be firms in North Carolina which can provide actuarial services similar in cost and quality to those now provided the systems by the out-of-state firm. As stated above, the Committee would leave the

determination of who is to be the actuary with the boards of trustees.

The Committee is of the opinion that, insofar as is possible and practical, the State should favor its citizens with its business. Thus the Committee believes that the boards of trustees of the respective systems should re-evalaute the services now rendered their systems. Where a North Carolina firm is willing and able to provide actuarial services at the same or lesser cost and of the same excellent quality as the present provider, the new actuarial services contract ought to be awarded to a firm resident in this State rather than to an out-of-state firm.

<u>Recommendation 4. The Departments of the State Auditor and of the State Treasurer should study the possibility of reducing the systems' actuarial costs relating to data processing by integration of the present actuary's software and expertise with the State's computer</u>.

Information was obtained from the present actuary that for the calendar year 1975 the actuary billed the Teachers' System, the Local Governmental System, the Law Enforcement System and Firemen's Pension Fund a total of $74,900. Of that sum, $36,000 was a result of data processing fees. In 1974 the comparative figures are--$84,850 in total charges, of which $38,000 was for data processing. (See Appendix X).

The Committee has been told by other actuaries that significant savings in actuarial cost might be had by integrating the data processing function now performed by the actuary in New York with the State computer system.

Recognizing again that the conduct of the actuarial

services function is basically administrative rather than legislative in nature, the Committee recommends that the retirement systems themselves study the possibility of reducing actuarial costs. The study should focus on:

1. Comparing marginal cost per hour of additional utilization of the State's computer with the average cost per hour of the computer used by the present actuary;

2. possible savings which might be realized by the elimination of duplicate records;

3. possible savings in clerical costs by use of North Carolina personnel rather than the more expensive New York clerical personnel; and

4. possible savings in reduction of travel expenses.

<u>Recommendation 5. The General Assembly should establish a permanent Joint Committee on Retirement to engage in a continuous study of the State-administered retirement systems</u> (see Appendix Y). The Committee believes that the General Assembly needs adequate and independent actuarial evaluations of both the retirement systems and proposed changes to those systems. The Committee proposes that by statute separate standing Committees on Retirement be created in each house of the General Assembly. The Committee also proposes that these committees hold joint meetings as the Joint Committee on Retirement. The legislative proposal would designate the Joint Committee on Retirement a joint committee of the General Assembly. Thus under the provisions of Article 5A of Chapter 120 of the General Statutes, the Joint Committee on Retirement may issue subpoenas, examine witnesses under oath and has contempt

powers.

The proposed Joint Committee on Retirement would be directed to study all aspects of retirement and pension financing, planning, and operation for public officers and employees within the State. The Joint Committee would be specifically charged with issuing a written document on each piece of retirement or pension legislation setting forth, among other matters, an estimate of the cost of that legislation and an evaluation of the legislation's actuarial soundness and adherence to sound retirement and pension policy. That document would accompany the bill when it is reported by the Committee on Retirement to which it has been referred.

To aid the proposed Joint Committee in its work, the Legislative Services Commission would be authorized to provide the Committee with staff assistance.

The proposed General Statutes Section 120-113 would specifically require that the Legislative Services Commission provide the Committee with actuarial assistance which is indispensable to an effective evaluation of the systems.

The Committee, in recommending the establishment of a permanent body to evaluate North Carolina public employee retirement systems, notes that this idea has gained acceptance in other states, among them Florida, Illinois, Louisana, Massachusetts, Minnesota, New York, Ohio, South Carolina, South Dakota, Tennessee, Washington and Wisconsin.

Recommendation 6: The General Assembly should appropriate sufficient additional funds to the Legislative Services Commission to provide adequate professional actuarial services for the Joint Committee on Retirement. The Legislative

Research Commission's Committee on Retirement Systems Matters recommends (see the Legislative Proposal in Appendix Z) that $15,000 be appropriated for fiscal year 1977-1978 (the Second Session of the 1977 General Assembly) and that $35,000 be appropriated for fiscal year 1978-1979 (the First Session of the 1979 General Assembly) to provide independent qualified actuarial services to the General Assembly.

During the deliberations of the Committee, the General Assembly reconvened on May 3, 1976, for a two-week "budget session". During that period the General Assembly passed Chapter 983 of the 1975 Session Laws (See Appendix O). Section 25 of that Chapter authorized the Fiscal Research Division to have conducted an examination of the TSERS to "determine the appropriate employers' matching conbribution rate" that should be used during the next biennium.

The Legislative Services Commission allotted $30,000 for the study. However, it was realized that the authorized study could be produced no earlier than June of 1977. The Legislative Services Commission then re-allotted the $30,000 to provide an actuarial consultant for the First Session of the 1977 General Assembly. The Fiscal Research Division was directed to enter into negotiations with Charles R. Dilts Associates, Consulting Actuaries in Durham, to provide these services.

__Teachers' and State Employees' and Local Governmental Employees' Retirement Systems:__

__Benefits:__

The Committee on Retirement Systems Matters decided to focus the attention of its study on the largest retirement system and the traditional leader in innovation of benefits--the Teachers' and State Employees' Retirement System. Within that System the Committee examined principally the group which it felt was the most in need of adjustments to retirement benefits--the retired members.

The Committee in its deliberations was also mindful of suggestions for changes to the benefits of active members of the TSERS and of both active and retired members of the LGERS. It is always desirable, where possible, to keep the provisions of the Local Governmental Employees' Retirement System and the Teachers' and State Employees' Retirement System parallel. Actual changes of significant magnitude should not be legislated without the approval of the participating units which are required to provide the necessary funding. The Legislative Research Commission's Committee on Retirement Systems Matters leaves to the recommended Joint Committee on Retirement of the General Assembly a complete examination of these complex areas.

Mr. Harlan Boyles, the Treasurer-elect, in December, 1976, proposed that the Committee recommend changes in the benefits and representation of retired members of the Teachers' and State Employees' Retirement System (See Appendix AA). The Drafting Subcommittee reviewed Mr. Boyles' proposals as well as the suggestions of its members. The Committee directed the Employees' Retirement and Health Benefits Division of the

Department of the State Treasurer with the aid of the Attorney General's Office to obtain actuarial estimates of the costs of the various proposals for the next two fiscal years and drafts of legislation to implement the proposals (See Appendix BB). The Department of the State Treasurer's responses are contained in Appendix CC.

The Committee recommends the following courses of action to the 1977 General Assembly, subject to a careful scrutiny of the costs of these proposals and their adherence to sound pension and retirement policy by the recommended Joint Committee on Retirement of the General Assembly and its actuary.

<u>Recommendation 1: The Committee recommends in principle that retired members and their surviving annuitants of the Teachers' and State Employees' Retirement System should be granted an automatic adjustment to their allowances to reflect the change in the cost-of-living index, subject to the finding of an immediate study by the State Treasurer and actuary regarding the availability of funding.</u>

<u>Recommendation 2: The representation of the retired members should be increased on the Board of Trustees of the Teachers' and State Employees' Retirement System.</u> The Committee recommends that G.S. 135-6 be amended to increase the membership of the Board of Trustees from 12 to 13 members. The new member would join one of the existing members to represent the interests of the retired members of the System (See the legislative proposal in Appendix DD).

<u>Recommendation 3: The surviving spouse of a teacher or State employee, who is receiving a survivor's alternate benefit under G.S. 135-5(m), and the surviving spouse, who has not yet</u>

obtained his 65th birthday, of a retired teacher or State employee, should be permitted to obtain hospital and medical insurance under the State plan authorized by G.S. 135-33. Under the present statute the aging surviving annuitant or the surviving spouse of a retired teacher or State employee may not participate under the voluntary hospitalization and medical insurance plan. The excluded individuals are frequently unable to obtain hospital and medical insurance or can obtain them only at great cost. This situation results from these individuals' age and in some cases poor health. These individuals' allowances from the retirement system are therefore frequently consumed by medical costs or insurance. The Committee feels that the General Assembly may have overlooked these groups in enumerating which individuals could purchase coverage under the State plan (See the legislative proposal in Appendix EE).

The Department of the State Treasurer states that the extension of insurance coverage to these groups would result in no direct immediate cost to the State if these groups pay the full premium cost as for active members.

> There would be no direct cost to the State to extend hospital-medical insurance coverage to the groups indicated . . . if we assume that they will pay the full premium cost as for active members. However, if these groups are permitted coverage and if their adverse loss experience follows the pattern of the retired group, there would be some additional expense to the group as a whole which would be determinable only on an experience basis. (See pages 3-4 of Appendix CC.)

Recommendation 4: The General Assembly should subsidize hospital and medical insurance coverage for retired members and beneficiaries. In view of the service rendered during active employment by teachers and State employees, the Committee believes that the General Assembly should appropriate $15.00 per

month per individual presently entitled to purchase hospital and medical insurance under G.S. 135-3 as well as the two new groups which would be added if Recommendation 3 were to be adopted to subsidize hospital and medical insurance coverage under these plans (see the legislative proposal in Appendix FF).

The actuary of the Teachers' and State Employees' System estimates that to provide a subsidy to each of these retired members, surviving annuitants, or beneficiaries, of $15.00 per month to obtain hospitalization and medical insurance would require a total appropriation of $5,529,602 for fiscal year 1977-1978 and $6,014,882 for fiscal year 1978-1979 (see Appendix CC, pp. 3 and 4).

<u>Recommendation 5: The General Assembly should resume full-funding of the Disability Salary Continuation Plan.</u> The purpose of the plan is to provide disabled teachers and State employees a continuation of a reasonable portion of their normal salaries. The General Assembly has not appropriated funds for the plan since the 1974-1975 fiscal year. The Committee in its legislative proposal in Appendix GG recommends that the General Assembly appropriate a total of $2,364,572 for fiscal year 1977-1978 and $2,440,238 for fiscal year 1978-1979 to fully fund this program.

<u>Recommendation 6: The Committee recommends in principle that a reasonable adjustment should be made to the allowances of retirees, their beneficiaries and surviving annuitants who were receiving allowances prior to July 1, 1975, under the Teachers' and State Employees' Retirement System subject to the finding of an immediate study by the State Treasurer and actuary regarding the availability of funding.</u> Substantial improvements to the

benefit structure of active members were made during recent sessions of the General Assembly. In the past it has been common practice to provide some adjustments for retired members after major changes for active members.

Recommendation 7: The Committee recommends in principle that the percentage factor in determining allowances under the TSERS be increased from 1.5% to 1.75%, or an increment thereof, and that the years to determine average final compensation be lowered from 4 to 3 years in TSERS, subject to the finding of an immediate study by the Board of Trustees of TSERS and its actuary regarding the availability of funding.

An adequate, competitive benefit structure is of great importance to a retirement plan. Actually, improvements in the benefit structure, provided that they are properly funded, should lessen the need for substantial post-retirement increases. The national average benefit forumla is approximately 1.8% of average compensation.

Recommendation 8: The Committee recommends in principle that the death benefit under the TSERS be increased to one and one-half times final annual compensation, of the deceased teacher or State employee, not to exceed $20,000, subject to the finding of an immediate study by the Board of Trustees of TSERS and its actuary regarding the availability of funding. If that study finds that insufficient funds are available to raise the maximum limit of the death benefit to $20,000 it is recommended that the death benefit be increased to one and one-half times final annual compensation not to exceed the present limit of $15,000. The Committee recommends that the Board of Trustees of the TSERS and its actuary also investigate methods by which the proceeds of the

death benefit not be taxed as ordinary income but rather be considered tax-exempt as are proceeds of an insurance policy.

The present death benefit provision gives the beneficiary of a deceased State employee a lump sum payment equivalent to his compensation during the calendar year preceding the year in which his death occurs or the compensation during the twelve-month period ending on the last day of the month preceding the month in which his death occurs subject to a maximum of $15,000. This provision which was enacted in 1967, has been greatly appreciated by the employees, and, until recently, has been fairly equitable. The Committee sees a need for some improvement in this important benefit.

Operation:

Finding: A major benefit to be obtained in any consolidation of retirement systems would be savings in the cost of administration through the elimination of duplication of effort. Under the present system, the administration and investment of a majority of State-funded retirement systems are vested in the Department of the Treasurer already. Because of the differences in the statutory framework of the retirement and pension systems administered by the Department of the State Auditor as opposed to those administered by the Department of the State Treasurer, the Committee believes that no useful purpose would be gained by consolidation of the administration of the various funds at this time.

APPENDICES

APPENDIX A

LEGISLATIVE RESEARCH COMMISSION MEMBERS

1975-76

Name	Business Address	Phone
Speaker James C. Green Co-Chairman	Box 185 Clarkton, N.C. 28433	(919) 647-4191
Sen. John T. Henley Co-Chairman	200 S. Main Street Hope Mills, N.C. 28348	(919) 424-0261
Sen. Bob L. Barker	P.O. Box 30069 Raleigh, N.C.	(919) 782-1314
Sen. Luther J. Britt, Jr.	P.O. Box 1015 Lumberton, N.C. 28358	(919) 739-2331
Sen. Cecil James Hill	The Legal Bldg. Brevard, N.C. 28712	(704) 884-4113
Sen. William D. Mills	P.O. Box 385 Swansboro, N.C. 28584	(919) 326-8743
Rep. Glenn A. Morris	P.O. Box 1111 Marion, N.C. 28752	(704) 652-2453
Rep. Liston B. Ramsey	Marshall, N.C. 28753	(704) 649-3961
Rep. Hector E. Ray	310 Green Street Fayetteville, N.C. 28303	(919) 483-8188
Rep. J. Guy Revelle, Sr.	Route 1, Box 123 Conway, N.C. 27820	(919) 587-4257
Rep. Thomas B. Sawyer	Suite 527-528 Northwestern Bldg. Greensboro, N.C. 27401	(919) 275-4150
Sen. Willis P. Whichard	P.O. Box 3843 Durham, N. C. 27702	(919) 682-5654

GENERAL ASSEMBLY OF NORTH CAROLINA
SESSION 1975

H

ADOPTED
SIMPLE
RESOLUTION

HOUSE RESOLUTION 1200
Adopted June 20, 1975

Sponsors: Representative

Referred to:

May 30, 1975

A HOUSE RESOLUTION DIRECTING THE LEGISLATIVE RESEARCH COMMISSION TO STUDY EXTENDING UNREDUCED RETIREMENT BENEFITS TO ALL RETIRED STATE EMPLOYEES WHO HAVE ACCUMULATED 30 OR MORE YEARS OF CREDITABLE SERVICE AND CONTRIBUTED TO THE RETIREMENT FUND FOR 30 OR MORE YEARS.

The House of Representatives resolves:

Section 1. The Legislative Research Commission is directed to study the question of amending the General Statutes to provide that all State employees who have retired prior to July 1, 1973, with 30 or more years of membership service, and have contributed to the system 30 years or more, excluding out-of-state service, regardless of their age at retirement, shall be entitled to unreduced retirement benefits.

Sec. 2. This resolution shall become effective on adoption.

H. B. 296 CHAPTER 851

AN ACT TO DIRECT THE LEGISLATIVE RESEARCH COMMISSION TO STUDY VARIOUS MATTERS.

The General Assembly of North Carolina enacts:

Section 1. The Legislative Research Commission is directed to study the following issues, designing the individual study efforts as described in the other sections of this act:

. . .

(15) The need for an actuarial services division within the Department of State Treasurer (H. 331);

. . .

(20) The funding, benefits, and operations of the Retirement System (H. 994).

. . .

Sec. 11.3. In its study of the need for the creation of a Division of Actuarial Services within the Department of the State Treasurer the Legislative Research Commission shall look into the availability, quality, use and costs of the actuarial services furnished by private business to those agencies of the State requiring these services.

. . .

Sec. 11.8. In its study of the Retirement System the Legislative Research Commission shall look into the many questions that have developed among members of the General Assmebly concerning the financing of the Teachers' and State Employees' Retirement System and the Local Governmental Retirement System, and the Commission shall study the financing, the benefits and the operation of the retirement systems. The Commission shall further examine:

(1) Providing a permanent plan for maintaining the relative adequacy of benefits for retired employees;

(2) A comparison of our benefit structure with those of other jurisdictions; and

(3) A determination of the advisability of combining the administration and actuarial services for all the retirement systems financed in whole or in part by State funds.

. . .

Sec. 15. This act shall become effective upon ratification.

In the General Assembly read three times and ratified, this the 25th day of June, 1975.

APPENDIX D

Witnesses Appearing Before the

Legislative Research Commission

Committee on

Retirement System Matters

Mr. Ernest Ball, General Counsel
N. C. League of Municipalities

Dr. A. C. Barefoot, Chairman
1970 Report of The Teachers' and State Employees' Benefits Study Commission

Mrs. Madge Edwards Bolin, Senior Vice President
Booke & Company
Winston-Salem, North Carolina

Mr. T. P. Brendle, Fiscal Analyst
Fiscal Research Division

Mr. Henry L. Bridges
State Auditor

Mr. H. L. Browning, Captain
Greensboro Fire Department
Greensboro, North Carolina

Mr. W. H. Copley, Captain
Durham Fire Department
Durham, North Carolina

Mr. Charles R. Dilts, President and Chief Operating Officer
Charles R. Dilts Associates Consulting Actuaries
Durham, North Carolina

Mr. Dennis Ducker, Assistant Director, Employees' Retirement and Health Benefits Division
Department of State Treasurer

Mr. Hugh Gillespie, Consulting Actuary
George B. Buck Consulting Actuaries, Inc.
New York, New York

Mr. W. H. Hambleton, Director
Employees' Retirement and Health Benefits Division,
Department of State Treasurer

Mr. Carlton Harker, Vice President and Actuary
Booke & Company
Winston-Salem, North Carolina

Dr. Donald Hayman, Assistant Director
Institute of Government
Chapel Hill, North Carolina

Mr. Henry G. McFayden, Executive Secretary
Law Enforcement Officers' Benefit and Retirement Fund

Mr. Ray Moore, Assistant State Treasurer and
Investment Officer

Mr. Allen R. Perry, Senior Vice President
Booke & Company
Winston-Salem, North Carolina

Mr. Joseph L. Summerlin, Jr., Executive Director
Firemen's Pension Fund

Mr. Byron Tatum
Budget and Personnel Officer
Department of Insurance

Mr. Joseph Wilkinson, President
Booke & Company
Winston-Salem, North Carolina

APPENDIX E

(Statement by Byron Tatum, Budget and Personnel Officer, Department of Insurance, before the Legislative Research Commission's Committee on Retirement System Matters, January 7, 1976)

Persons employed in actuarial type positions by the North Carolina Department of Insurance fall into two categories:

(1) Property and Casualty, and

(2) Life, Accident and Health.

The Property and Casualty personnel are involved in the analysis of rate filings made by the various insurance rating bureaus and/or companies. The purpose of their work is to determine whether the rates requested in any given filing are reasonable based on the loss experience presented in the filing. They work closely with our Administrative Law Division in preparation of cross examination questions and also testify as witnesses for the Department in rate hearings and court cases as necessary.

The Department presently has positions classified as "Fire and Casualty Actuary" and "Assistant Fire and Casualty Actuary" at pay grades 80 and 77, respectively. However, neither of these positions is filled by persons certified as an actuary due to the low salaries in these grades. Our research indicates that a Fellow of the Casualty Actuarial Society commands a salary of $35,000 to $40,000. Most of these actuaries are employed by insurance companies and enjoy greater fringe benefits than are normally offered by a government position.

The Life, Accident and Health personnel are involved in the audits of insurance companies. Their primary responsibility is to determine whether the company's reserves are adequate. The nature of their work requires them to travel constantly, just as the Department's auditors do. Their salaries are receipt supported. The Department currently has three persons employed in this Division to provide actuarial type services pertaining to the examination of life insurance and accident and health insurance companies. However, none of these is a Fellow of the American Academy of Actuaries.

The Department is requesting funds from the Legislature for two certified actuaries; (1) Property, and (2) Life. Each would be a

Fellow of the Casualty Actuarial Society. We feel that this is necessary in order to provide the expertise required to properly analyze the various rate filings and financial statements filed with the Department.

If we had these certified actuaries, then we could work with the State Treasurer and our proposed Actuarial Services Division would be able to fulfill the actuarial needs of the State Employee and Teacher Retirement System at a cost to the State which would be less than the present cost, and at the same time allow our Department to properly fulfill its statutory responsibility.

REMARKS TO THE COMMITTEE ON RETIREMENT SYSTEM MATTERS IN REGARD TO THE ESTABLISHMENT OF A DIVISION OF ACTUARIAL SERVICES

BY

HUGH GILLESPIE, CONSULTING ACTUARY

JANUARY 7, 1976

TABLE OF CONTENTS

I. SOME INFORMATION ABOUT ACTUARIES

A. Background

Definition of an actuary:

> "The actuary's concern is to apply mathematics and accumulated experience to risks and contingencies, making uncertainty less uncertain, and doing it with the highest degree of professional responsibility."

The actuarial profession grew out of a developing need for a kind of expertise not previously available. It had its origin in Great Britain over 200 years ago and was associated with the early life insurance companies. Legal recognition came in 1819 with an act of Parliament.

In 1889 a group of actuaries formed the Actuarial Society of America, and admitted only those qualified by experience to its ranks. Admission by examination was instituted in 1896 for entry into the Society and later advanced to Fellowship. In 1909 a group organized the American Institute of Actuaries and ran a parallel course with the Actuarial Society of America until 1949 when the two Societies merged to form the present Society of Actuaries. In 1914 the present Casualty Actuarial Society was formed, and in 1916 the present Fraternal Actuarial Association was formed.

B. The Rise of the Consulting Actuary

The World War II wage freeze that concentrated labor union attention on employee benefit and pension plans, the landmark Inland Steel decision of 1949 making pension subject to collective bargaining, and the W. W. Cross case doing the same for other employee benefit plans, caused a spectacular rise in the demand for the services of

the consulting actuary. A group of consulting actuaries got together in 1950 and organized the Conference of Actuaries in Public Practice. Its purpose was to provide a forum for the exchange of viewpoints and for discussion of the special problem of the consulting actuary.

Consulting actuaries are generally retained by corporations, states and municipalities that desire to have periodic independent overviews or audits of their actuarial liabilities.

C. American Academy of Actuaries

The American Academy of Actuaries was created in 1965 as the umbrella actuarial organization for the United States. Members of the four existing groups were automatically eligible for membership. The number of charter members was 1,427. Also, practicing actuaries who were not members of any of these groups could be admitted during a limited period by submitting reasonable evidence of qualifications acceptable to the Academy.

Progress is being made toward recognition of the American Academy as the official accrediting body in the United States, but since this involves various federal departments and the governments of the 50 states, the process may take a matter of years.

As of July 1, 1974 there were 3,350 members of the American Academy, which included 1,851 associated with insurance organizations, 914 consulting actuaries, 105 employed by government, 30 with academic institutions and the balance were retired or their affiliations not known.

D. Enrolled Actuaries

The Employee Retirement Income Security Act of 1974 created a class of actuaries who will be designated as "enrolled actuaries". The federal legislation established a Joint Board for the Enrollment of Actuaries which is responsible for the certification of actuaries who will be authorized to prepare the various actuarial reports and statements required by the Act. The additional information and certifications required by the Act has created an unprecedented demand for qualified actuaries.

II. OUTLINE OF ORGANIZATION OF GEORGE B. BUCK CONSULTING ACTUARIES, INC.

A. History of Firm

The office of George B. Buck Consulting Actuaries, Inc. was established in 1916, and has been operated continuously since that date. The firm was an individual proprietorship for more than 50 years. However, for the last five years it has been a closely-held, employee-owned, corporation. There is a Board of Directors of eleven senior employees, six of whom are Consulting Actuaries. We believe that the change to a corporate form of entity has further ensured our continuity of operation.

B. Staff

In addition to our main office in New York City we have offices in Atlanta, Chicago and Pittsburgh and a subsidiary corporation in Toronto. Our total personnel consists of about 400 employees, of whom 54 are members of one or more of the recognized actuarial organizations. In addition to actuaries, there are two Certified Public Accountants, six lawyers and several other Employee Benefit Consultants on our staff. Our depth in personnel permits us to deal effectively with contingencies arising from unforeseen absences of employees due to illness, death or other reasons.

C. Available Resources

We have 32 Consulting Actuaries, each of whom is an "account executive" responsible for the work performed for a group of clients. A Consulting Actuary has his own staff, which can include from one to three other actuaries, plus actuarial assistants. A substantial portion of our actuarial staff below the level of Consulting Actuary has been with our firm for many years, giving further protection to our clients in the area of maintenance of quality and stability of performance.

We have a number of ancillary departments upon which the Consulting Actuary can call to provide specialized services for his clients:

1. Research Department

   This department is headed by an actuary for the purpose of keeping abreast of changes in the employee benefit field as a result of legislation and social and economic trends. In addition to accumulating and providing useful information for our staff and clients, this department prepares our periodic bulletins, "For Your Benefit", which are mailed to all our clients.

2. Law Department

   Our Law Department's main responsibility is to keep current in the area of governmental regulations and special tax problems. It is also involved with client counsel in the review of all legal plan and trust documents.

3. Group Department

   We have a Group Department which specializes in benefits other than pensions. We have assisted our clients in the establishment of group insurance programs, and with periodic review involving the rates, reserves, retentions and claims charged by carriers. Recommendations on self-financing of benefits, plan design, preparation of specifications for bids by insurance carriers, and the review of final proposals are other services of this department.

4. International Department

This department works exclusively in the area of providing consulting advice covering such items as benefit structure, plan design, review of foreign regulations, and special projects relating to international benefit practices outside of the United States.

5. Communication Department

The expertise of this department is in all areas of informing plan members and other interested parties as to available benefits. This may be done by means of slides, booklets and flip charts, etc., as well as through customized individual employee statements.

6. Plan Administration Department

This department provides record-keeping services for pension, profit-sharing, thrift, savings and stock purchase plans. It also provides consulting services in such areas as plan design and development of required forms and administrative manuals.

7. Retirement Department

Our Retirement Department may be the only one of its kind in the consulting field. It prepares and certifies about 30,000 individual benefit calculations each year. Although the department operates with relative autonomy, unusual cases are referred to the Consulting Actuary or his staff.

8. Data Services Department

We have always maintained our own in-house installation of data processing equipment. At present, the department includes about 70 employees, including systems analysts, programmers and actuaries. On our premises we have an IBM 360/44 and an IBM 370/135 model computers. We have developed computer systems which, according to members of our staff formerly with other consulting actuarial organizations, offer more flexibility and are more sophisticated than those with which they previously worked. We have the capabilities to prepare projections of valuations at future dates, involving a substantial variety of assumption changes at different times.

Our available resources include another feature which we believe is unique in our field: it consists of a "pre-audit" review of all our work by professional actuaries. Prior to its submission to a client, all items of substance, including cost calculations and special studies, are reviewed by one of four reviewing actuaries, each of whom is a member of at least one professional actuarial organization and has been in the pension consulting field for many years. We feel that this procedure enables us to maintain policy and quality control.

D. Clients

We service the employee benefit plans of more than one thousand clients, who operate in every field of activity - industrial, financial, eleemosynary, labor, governmental and quasi-governmental. For your information, we have included in the appendix a list of governmental and quasi-governmental clients and a partial list of other clients.

E. Qualifications in the Governmental Area

We believe that our experience with governmental plans exceeds that of any other consulting firm. Our office pioneered in this country in the reorganization and establishment of governmental retirement systems. We presently serve as regular actuary for about 60 retirement systems covering state, county or city employees in 21 states.

III. HISTORY OF RELATIONSHIP WITH NORTH CAROLINA STATE RETIREMENT SYSTEMS

Our firm was first employed by the State of North Carolina to assist a commission on teacher retirement in a study of a proposed retirement system for teachers. A report on the proposed system was submitted in November of 1938. In 1939 another commission was established to study retirement for teachers and State employees and again we were asked to assist. As a result of the study the Teachers' and State Employees' Retirement System was established, effective July 1, 1941, and we have performed the regular actuarial services for the System since that time.

As a result of this relationship we were asked to prepare a report on the Law Enforcement Officers' Benefit and Retirement Fund. This report was submitted in March of 1942 and we have served as actuary of that Fund since that time. In 1945 a retirement system was established to cover employees of local governmental units in the State which elected such coverage and again we were asked to perform the actuarial services for this System. We have also prepared annual actuarial valuations of the Firemen's Pension Fund since 1963.

IV. DESCRIPTION OF SERVICES RENDERED BY GBB INC. TO NORTH CAROLINA STATE RETIREMENT SYSTEMS

A. Regular Services

We have grouped under this heading the services which are performed on a periodic basis, either annually or otherwise. These include:

(1) Execution of annual actuarial valuations of the assets and liabilities of the various systems, on the basis of the mortality and service tables adopted by the respective Boards.

(2) Preparation of an annual report for each system containing the results of the actuarial valuation and including the following information:

- (a) Details of the actuarial liabilities
- (b) Levels of recommended contributions
- (c) Tables showing summaries of employee data included in the valuation
- (d) Summary of the system's provisions, including all amendments to date for valuation purposes
- (e) Statement by the actuary on the financial condition of the system.

(3) At least once every five years (for the Teachers' and Employees' and Local Governmental Retirement Systems) make an actuarial investigation into the mortality, service and compensation experience of the members and beneficiaries of the system, and make recommendations for possible changes in the actuarial tables to be used in subsequent valuations of the system.

(4) Regular attendance at certain board meetings to present actuarial reports and to bring the trustees up-to-date with respect to changes or trends in the pension area. Examples of outside

forces which will have a definite influence on the systems include:

(a) EEOC, or Equal Employment Opportunities Commission, as it relates to discrimination between the sexes as to benefits, and discrimination by age through the imposition of compulsory retirement ages.

(b) ERISA, or Employee Retirement Income Security Act, and its eventual extension to public employee retirement systems;

(c) IRS, or Internal Revenue Service, and the likely requirement for all public systems to eventually become qualified with the IRS;

(d) SS, or Social Security, with its tremendous increases in benefit levels in recent years; and

(e) The economic outlook, which has had a severe impact on the adequacy of pension benefits, through erosion of the purchasing power of fixed benefits.

B. Special Services

In addition to providing the regular actuarial services required by law, our office has at times assisted the various Boards in the following areas:

(1) Setting up record-keeping procedures.

(2) Consulting assistance in suggesting future benefit improvements in the system, including preparation of cost estimates.

(3) Appearance at legislative hearings or, when required, at fiscal or appropriation committee meetings.

(4) Drafting proposed legislative statutes.

(5) Provided information on trends, new developments and anticipated changes in the entire employee benefit field.

(6) Assistance in the design of other benefit programs for the same group of members.

(7) Preparation of employee booklets.

(8) Securing IRS qualification of retirement systems.

V. COST OF REGULAR SERVICES

It is our corporate policy to accept compensation solely from fees for professional services. We do not accept commissions from any insurer or other source. Like other professionals such as lawyers and accountants, we follow billing guides based upon hours and hourly rates, but we review all our charges prior to billing to assure ourselves that unreasonable amounts are eliminated.

The following table shows the date of commencement of our regular services with the indicated retirement system and our present annual charge for the regular services outlined in the previous Section IV.

System	Date Regular Services Commenced	Present Annual Charge For Regular Services
Teachers and Employees	7/1/41	$ 25,000
Local Governmental	7/1/45	20,000
Law Enforcement Officers	12/31/44	6,500
Firemens' Fund	7/1/63	3,800

VI. GENERAL COMMENTS REGARDING CREATION OF A DIVISION OF ACTUARIAL SERVICES

A. Trend

We are not aware of any state which has created a division of actuarial services, but acknowledge that no survey has been made. Most states do, however, employ life and casualty actuaries in their insurance departments, in connection with the regulation and supervision of life insurance and casualty companies that do business within their borders. A number of state and city retirement systems employ pension actuaries to provide the necessary actuarial services. Examples of systems that employ pension actuaries are as follows:

California State Employees
Florida State Systems
New York State Teachers
New York State Employees
New York City Systems

B. Points to Consider

The following points are suggested for consideration in connection with the establishment of a division of actuarial services:

1. Possible difficulties in connection with the independence and complete objectivity of an actuary who is both an employee and a beneficiary of the programs he services.
2. Need for computer availability and programs for performing valuations and special studies on a timely basis.
3. Need for general and specific information as to trends and changing regulations. For example, IRS regulations and ERISA.
4. Need for independent audit or outside assistance.

/APPENDIX A/

GOVERNMENTAL AND QUASI-GOVERNMENTAL CLIENTS

Alabama - Employees' Retirement System
Alabama - Teachers' Retirement System
Baltimore (Md.) - Employees' Retirement System
Baltimore (Md.) - Police & Firemen's Retirement System
Baltimore County (Md.) - Employees' Retirement System

Burlington (Vt.) - Employees' Retirement System
Federal Reserve System - Retirement Plan
Georgia - Teachers' Retirement System
Greenwich (Conn.) - Retirement System
Jefferson County (Ala.) - General Retirement System

Jersey City (N.J.) - Employees' Retirement System
Louisiana - School Employees' Retirement System
Louisiana - State University Retirement Plan
Maryland - Employees' Retirement System
Maryland - State Police Retirement System

Maryland - Teachers' Retirement System
Massachusetts Bay Transportation Authority - Retirement Fund
Miami Beach (Fla.) - Employees' Retirement Fund
Miami Beach (Fla.) - Police & Firemen's Pension Fund
Mississippi - Public Employees' Retirement System

Mississippi - Highway Safety Patrol Retirement System
Montgomery (Ala.) - Employees' Retirement System
Montgomery County (Ala.) - Retirement System
New Hampshire - Retirement System
New Jersey - Police & Firemen's Retirement System

New Jersey - Public Employees' Retirement System
New Jersey - Supplementary Annuity and Collective Trust
New Jersey - Teachers' Pension and Annuity Fund
New York - State Hospital System Retirement Fund
New York - State Teachers' Retirement System

Newton (Mass.) - Retirement System
Norfolk (Va.) - Employees' Retirement System
North Carolina - Firemen's Pension Fund
North Carolina - Law Enforcement Officers' Retirement Fund
North Carolina - Local Governmental Employees' Retirement System

GOVERNMENTAL AND QUASI-GOVERNMENTAL CLIENTS

North Carolina - Teachers' & State Employees' Retirement System
Omaha (Neb.) - Public Power District Retirement Plan
Pennsylvania - Joint State Government Commission
Pennsylvania - Public School Employees' Retirement System
Providence (R.I.) - Employees' Retirement System

Puerto Rico - Water Resources Authority Retirement System
Quincy (Mass.) - Retirement System
Roanoke (Va.) - Employees' Retirement System
Savannah (Ga.) - Board of Education Retirement System
South Carolina - General Assembly Retirement Plan

South Carolina - Retirement System
South Carolina - Police Officers' Retirement System
Tennessee - Consolidated Retirement System
Tennessee Valley Authority - Retirement System
United Nations - Joint Staff Pension Fund

United States Civil Service - Retirement System
Vermont - Municipal Retirement System
Vermont - State Teachers' Retirement System

/APPENDIX B/

PARTIAL LIST OF CLIENTS

Aluminum Company of America
AMAX, Inc.
American Brands, Inc.
American Electric Power Service Corporation
American Telephone and Telegraph Company

Anderson, Clayton & Company
Avon Products, Inc.
Babcock & Wilcox Company
Burlington Industries, Inc.
Chase Manhattan Bank, N.A.

Colt Industries Inc
Continental Can Company, Inc.
Continental Oil Company
Corning Glass Works
Diamond International Corporation

Firestone Tire & Rubber Company
First National City Bank
Ford Motor Company
General Telephone & Electronics Corporation
Gulf Oil Corporation

H. J. Heinz Company
Hiram-Walker & Sons, Inc.
International Nickel Company of Canada, Ltd.
International Telephone & Telegraph Corporation
Johns-Manville Corporation

Loews Corporation
Mellon Bank, N. A.
Melville Shoe Corporation
Merck & Co., Inc.
Morgan Guaranty Trust Company of New York

National Distillers and Chemical Corporation
Nestle Company, Inc.
Olin Corporation
Otis Elevator Company
Pfizer Inc.

PPG Industries, Inc.
R. J. Reynolds Industries, Inc.
Scott Paper Company
Shell Oil Company
Sherwin Williams Company

Sperry Rand Corporation
J. P. Stevens & Co., Inc.
Studebaker-Worthington, Inc.
United States Steel Corporation
Westinghouse Electric Corporation

APPENDIX G

STATEMENT BY W. H. HAMBLETON, DIRECTOR OF THE EMPLOYEES' RETIREMENT AND HEALTH BENEFITS DIVISION OF THE DEPARTMENT OF STATE TREASURER, BEFORE THE LEGISLATIVE RESEARCH COMMISSION'S COMMITTEE ON RETIREMENT SYSTEM MATTERS ON JANUARY 7, 1976.

MR. CHAIRMAN, MEMBERS OF THE COMMITTEE:

Among other things, Chapter 851 of the Session Laws of 1975 provides:

> "In its study of the need for the creation of a Division of Actuarial Services within the Department of the State Treasurer the Legislative Research Commission shall look into the availability, quality, use and costs of the actuarial services furnished by private business to those agencies of the State requiring these services."

There are two elements involved: one, the determination of whether actuarial functions should be provided by the Department of State Treasurer; and, the other, a study of the services presently provided by independent actuaries.

Addressing the first of these, we in the Department of the Treasurer are of the opinion that for Retirement and Health Benefits purposes the present method of obtaining actuarial services is preferable to the "in house" concept for the following reasons:

1. An independent outside consulting actuary is not a direct beneficiary of the particular program and would not be subject to the same pressures as a State employee.
2. Our present actuarial firm has been in the employee benefit business for over 50 years and as a result has gathered a wealth of information and experience.
3. The firm works with a broad list of clients both in government and in industry which keeps them abreast of current trends and makes it relatively easy to gather information.
4. The firm's large staff provides a broad range of specialized experience and assures the continuation of services in the event of unforseen absences.

It is doubtful that a single actuary could provide the variety of qualified services which the State conceivably could require.

5. The staff of the firm must of necessity be highly qualified in order to meet the demands of their clients in government and industry.
6. The services they offer must be highly competitive with those provided by other actuarial firms in order to maintain their large and valued client list.
7. They are technologically competent, having designed and developed a number of sophisticated actuarial computer programs and systems with which to meet the complexities of modern pension planning and administration.
8. In addition to the depth of staff, the present actuarial firm has the necessary data processing support which, in our opinion, the State lacks in the form of dedicated facilities.
9. The present firm is one of the oldest and most highly respected actuarial services providers that are available to us.
10. In our opinion, it is doubtful that the State could provide comparable services at a competitive cost.

With respect to the second of the studies to be conducted, our present actuarial firm has not only served each of the Systems since its inception but had a large part in the preliminary planning and studies leading to the formation of the Teachers' and State Employees' Retirement System in 1941. The basic services provided for our Division are on

a fixed fee basis as follows:

Teachers' and State Employees' Retirement System	$25,000
Local Governmental Employees' Retirement System	20,000
Uniform Judicial Retirement System	2,000
Solicitorial Retirement System	750
Uniform Clerks of Court Retirement System	1,000
	$48,750

These figures include all services required to perform the annual services outlined in the attached letters for the State and Local Systems. The services performed for the other Systems are identical. Understandably, fees are subject to periodic adjustment as costs continue to rise and the Systems continue to grow as they have consistently since their inception. These Systems are basically single employer plans with the exception of the Local System which in reality is a multi-employer plan with nearly 500 individual participating employing units. Naturally, by virtue of this difference, more functions are required in performing the regular services for the Local System.

In addition to these basic services there are additional services required from time to time for special work in connection with:

1. Requests for information from legislative committees and members of the General Assembly.
2. Cost estimates in connection with possible proposed liberalizing amendments.
3. Work in connection with administrative requirements for special tables and benefit calculation forms.
4. Redetermination of accrued liability rates for specific employing units. (Local System)

5. Recalculation of employer contribution rates resulting from consolidation of participating units. (Local System)
6. Miscellaneous services.

The Board of Trustees will not consider any liberalizations to the Systems without first having an estimate of the cost involved and the ability of the Systems to absorb these costs without requiring an increase in the employer contribution rate or rates.

Payments to the actuarial firm for special services during the years 1965 through 1975 are summarized as follows:

	STATE SYSTEM	LOCAL SYSTEM	TOTAL
1965	$ -0-	$ -0-	$ -0-
1966	-0-	-0-	-0-
1967	4,836	1,717	6,553
1968	1,976	4,064	6,040
1969	9,020	16,877	25,897
1970	4,532	-0-	4,532
1971	3,916	3,510	7,426
1972	4,232	838	5,070
1973	4,856	3,571	8,427
1974	13,885	4,530	18,415
1975	14,118	4,881	18,999
	$ 61,371	$39,988	$ 101,359
Average	$ 5,579	$ 3,635	$ 9,214

Considering the number and complexity of the requests, the professional nature of the work performed, and the rise in costs over this period, we consider these charges to be completely reasonable.

In summary, it is our recommendation that we continue the procurement of actuarial services in the same manner that is presently being utilized. We consider the cost to be moderate, the services very good, and the results more than adequate to justify the continuance of the present method of obtaining these services.

APPENDIX H

REMARKS MADE BY HENRY L. BRIDGES, STATE AUDITOR, BEFORE THE LEGISLATIVE RESEARCH COMMISSION ON JANUARY 7, 1976, AND PERTAINING TO THE NEED FOR THE CREATION OF A DIVISION OF ACTUARIAL SERVICES WITHIN THE DEPARTMENT OF STATE TREASURER.

Mr. Chairman, members of the Committee,

Thank you very much for affording me the privilege of appearing before you as you consider the question of whether or not the State of North Carolina should establish within the Department of State Treasurer or within any other department of state government a division of actuarial services. As Auditor for the State of North Carolina, as Chairman of the Board and Administrator of the Law Enforcement Officers' Benefit and Retirement Fund, and as a contributing member of the Teachers' and State Employees' Retirement System, I do have definite opinions on the question and I ask that you give serious consideration to the several points that I make.

I believe that the primary purpose of the actuarial service to the retirement funds administered by the State of North Carolina is two-fold-to protect the interests of the members of the Funds and to protect the interests of those paying the greater portion of the costs for the benefits provided - the taxpayers. A service not serving this joint purpose would, in my opinion, fall short of its intended mark.

With regard to the members of all retirement systems under discussion, they have contributed millions and millions of dollars and, in many instances, making contributions has resulted in hardship. The security and the well-being of the membership mandates the utilization of an actuarial service that is experienced, unbiased, untouchable by local political pressures, and capable of rendering the soundest technical advice possible.

With regard to the employer, each of the systems under study is under the direction of a Board of Commissioners or a Board of Trustees. In some instances, the

authority for making provisions in the system lies with the governing Board - in others, it lies with the General Assembly. In either instance, the provisions made are predicated on the evaluations and the approval of a Consulting Actuary. In every instance, amendments or additions to a program have both present and long-range effects on the employer as well as the member. An improper or an unsound act would likely have a more profound effect on the employer as it is generally regarded as being his responsibility - not the members - to provide at all times the funding necessary to insure a sound system.

A division of actuarial services created within any agency of State Government would limit its services to state agencies. This limitation would, within itself, deny the division the benefit of the knowledge and the experience that could be gained through serving other retirement systems.

A state actuarial service division, responsible to an individual, a Board or a Commission, or perhaps even the General Asembly, would lack the independence which I believe is an absolute requirement for any actuarial service rendered to a public employees retirement fund. The employment of technical personnel capable of making the indepth valuations presently made for the several funds, would, in all probability, result in a total expense to the state far greater than that now being paid for this service.

The minutes of the organizational meetings of the Board of Commissioners of the Law Enforcement Officers' Benefit and Retirement Fund reflect that initially, an employee of the N. C. Insurance Commission provided certain actuarial data for the Board. In 1942, Mr. George Buck, an independent actuary, began serving as a consultant to the Board and, as of December 31, 1944, his firm began making annual actuarial valuations of the Fund.

The George Buck actuarial firm is staffed with more than 50 actuarys, 6 attorneys, and 2 certified public accountants. The firm is presently rendering actuarial services to more than 1000 pension funds, both large and small, whose memberships are made up with employees of practically every area of employment imaginable. I do not believe that the State of North Carolina can create a division of actuarial services that can touch the quality of the services rendered by George Buck or by any other actuarial firm of comparable stature but, if it should be possible, I believe the cost therefor would be prohibitive.

SCHEDULE OF ACTUARIAL COSTS BY RETIREMENT SYSTEMS AND INSURANCE DEPARTMENT

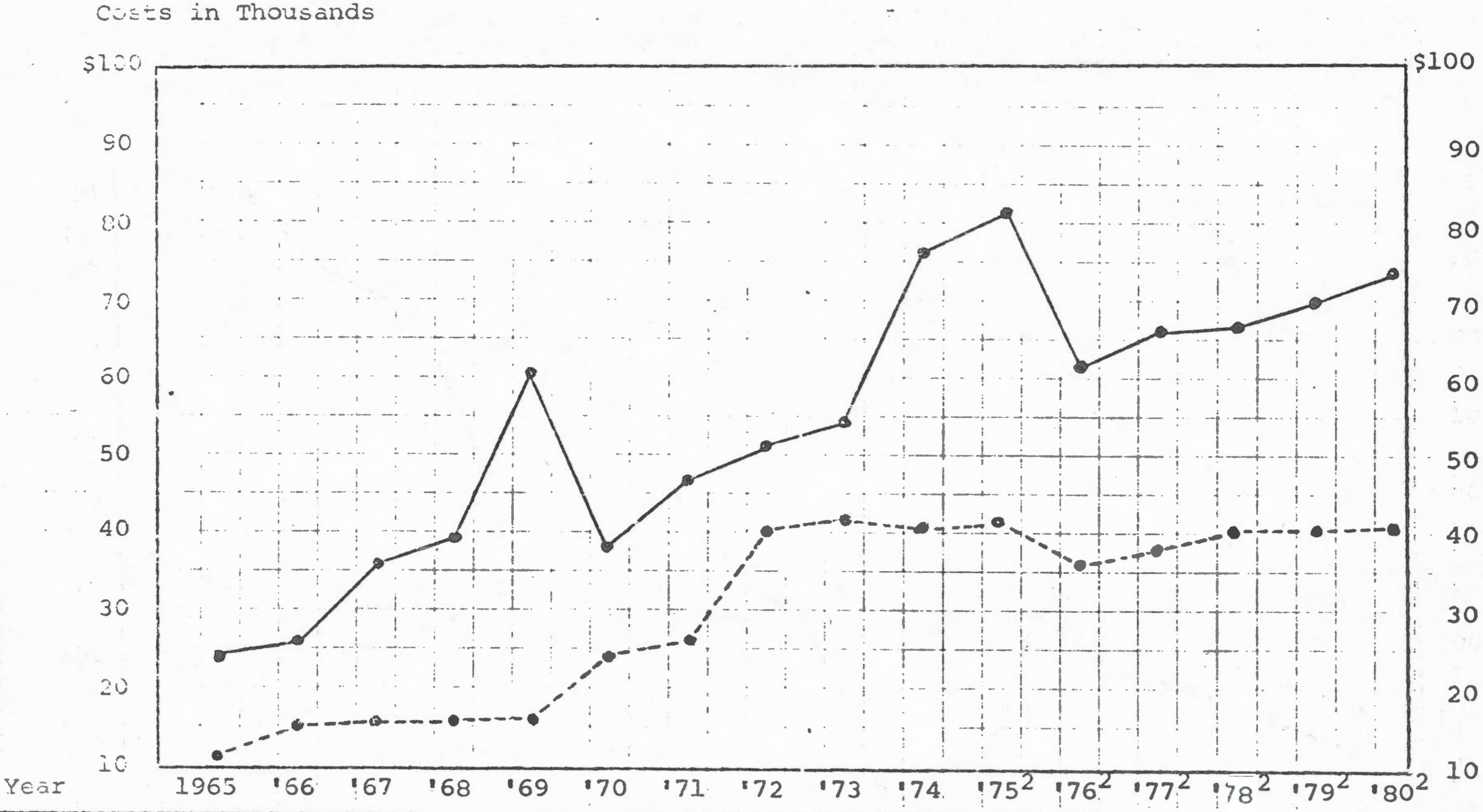
YEAR	TEACHERS' & STATE EMPLOYEES'	LOCAL GOVERNMENTAL	JUDICIAL	LAW ENFORCEMENT OFFICERS'	FIREMEN'S PENSION	TOTAL RETIREMENT SYSTEMS	ACTUARIAL COSTS OF INSURANCE DEPARTMENT [b]	GRAND TOTAL	AMOUNTS REIMBURSED BY INS. COMPANIES WHICH HAVE NOT BEEN INCLUDED IN CHARTS
1965	$ 12,600	$ 7,000	$	$ 3,200	$ 2,100	$ 24,900	$ 13,272	$ 38,172	$
1966	12,600	8,000		3,594	2,100	26,294	15,288	41,582	
1967	18,636	11,717		3,200	2,100	35,653	15,462	51,115	15,828.77
1968	16,976	16,064		4,500	2,100	39,640	16,542	56,182	24,352.00
1969	24,020	28,877		5,932	2,100	60,929	16,998	77,927	26,490.00
1970	19,532	12,000		4,500	2,500	38,532	24,240	62,772	28,872.00
1971	21,916	17,510		5,749	2,500	47,675	26,652	74,327	31,353.00
1972	25,232	16,838		6,160	3,000	51,230	40,308	91,538	34,387.00
1973	25,856	19,571		6,064	3,000	54,491	42,972	97,463	46,375.00
1974	36,885	22,530		15,522	3,000	77,937	41,520	119,457	53,377.00
1975 [a]	39,118	24,881		14,100	3,000	81,099	42,576	123,675	58,895.00
1976 [a]	28,050	22,000	750	6,500	3,800	61,100	36,486	97,586	63,800.00
1977 [a]	31,000	24,000	750	6,500	3,800	66,050	38,274	104,324	70,000.00
1978 [a]	30,000	26,000	750	7,200	3,800	67,750	40,188	107,938	78,500.00
1979 [a]	32,000	26,000	1,000	7,200	4,000	70,200	40,188	110,388	86,500.00
1980 [a]	33,000	28,000	1,000	7,200	4,000	73,200	41,442	114,642	91,000.00

[a] Estimated in same ratio of increase as years 1971-75

[b] Excludes cost of Actuarial services reimbursed by Insurance Companies served.

Note: Above information supplied by relevant agencies

ACTUARY COSTS[1] TRENDS --RETIREMENT SYSTEMS AND INSURANCE DEPARTMENT

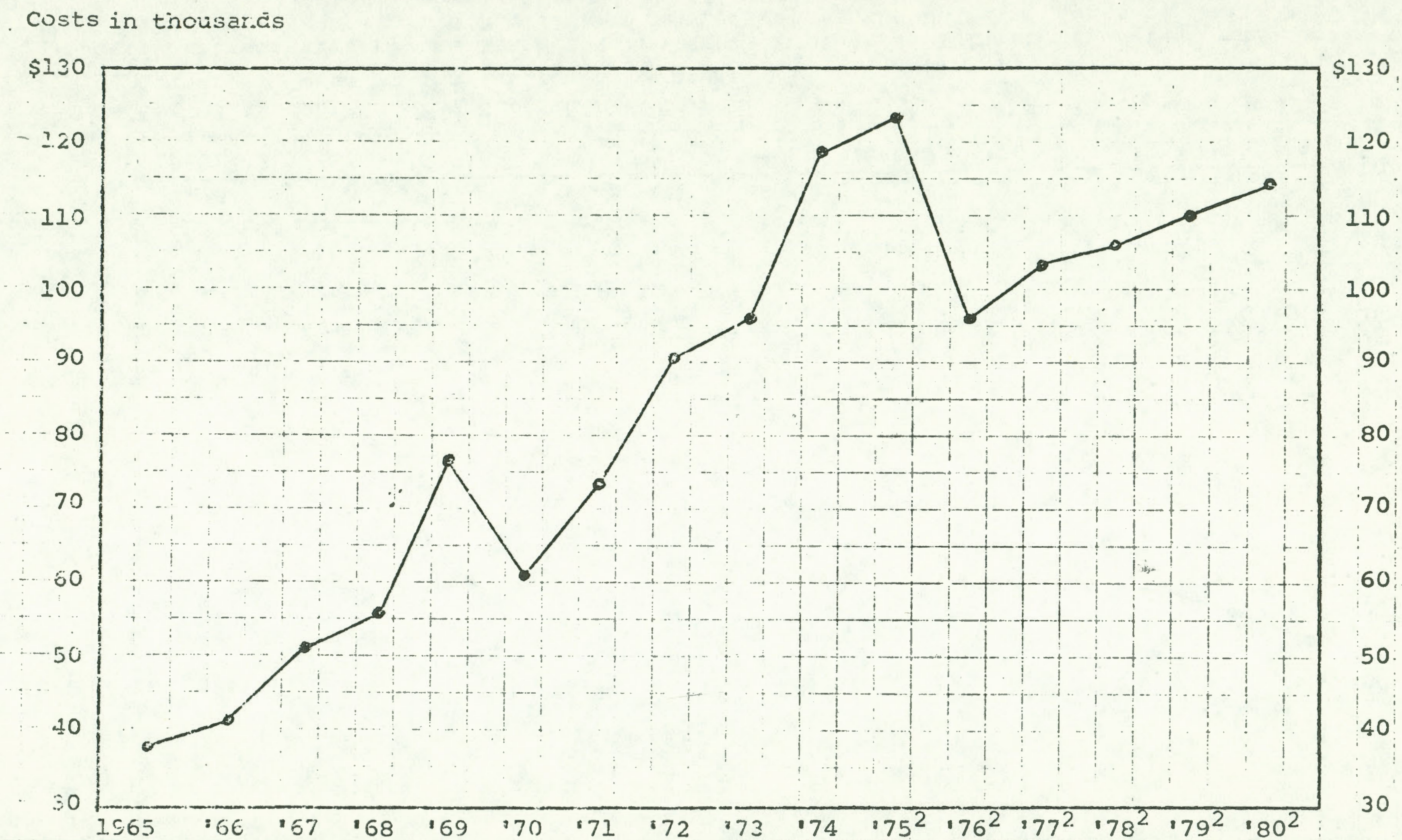


- - - - - Actuarial Costs of the Department of Insurance
________ Actuarial Costs of the Retirement Systems

1 Based on figures supplied by the Teachers' and State Employees' Retirement System, the Local Governmental Retirement System, the Uniform Judicial Retirement System, the Uniform Clerks of Court Retirement System, the Uniform Solicitorial Retirement System, the Law Enforcement Officers' Benefit and Retirement Fund, the Firemens' Pension Fund, and the Insurance Department. Costs include those for basic actuarial services and those for special studies, but do not include the costs for actuarial services for which the Insurance Department is reimbursed by insurance companies.

2 Estimated Costs

COMBINED ACTUARIAL COSTS[1]--RETIREMENT SYSTEMS, INSURANCE DEPARTMENT



1 Based on figures supplied by the Teachers' and State Employees' Retirement System, the Local Governmental Retirement System, the Uniform Judicial Retirement System, the Uniform Clerks of Court Retirement System, the Uniform Solicitorial Retirement System, the Law Enforcement Officers' Benefit and Retirement Fund, the Firemens' Pension Fund, and the Insurance Department. Costs include those for basic actuarial services and those for special studies, but do not include the costs for actuarial services for which the Insurance Department is reimbursed by insurance companies.

2 Estimated costs

APPENDIX L

RECEIVED
DEC 13 1976
LEGISLATIVE SERVICES OFFICE

11 October 1976

The Honorable Claude DeBruhl
Member, House of Representatives
North Carolina General Assembly
State Legislative Building
Raleigh, North Carolina 27611

Dear Representative DeBruhl:

Pursuant to your request I am enclosing the Attorney General's Opinion relating to the power of the Board of Trustees of the Teachers' and State Employees' Retirement System to set employer contribution rates in excess of the rate used by the General Assembly in making appropriations in the Current Operations Budget Act.

Should you have any questions concerning this matter, or if I can be of assistance in any other matter, please do not hesitate to contact me.

Very truly yours,

RUFUS L. EDMISTEN
ATTORNEY GENERAL

Norma S. Harrell
Associate Attorney General

NSH/ch

Enc.

State of North Carolina
Department of Justice
P. O. Box 629
Raleigh
27602

RUFUS L. EDMISTEN
ATTORNEY GENERAL

11 October 1976

SUBJECT: State Departments, Institutions and Agencies; Teachers' and State Employees' Retirement System; Employer Contribution Rate for Retirement System; Appropriations

REQUESTED BY: Representative Claude DeBruhl, Member North Carolina House of Representatives General Assembly of North Carolina

QUESTION: Does the Board of Trustees of the Teachers' and State Employees' Retirement System have the power to set an employer contribution rate for the Retirement System in excess of the rate used by the General Assembly in making appropriations in the Current Operations Budget Act?

CONCLUSION: The Board of Trustees of the Teachers' and State Employees' Retirement System has the power to set an employer contribution rate for the Retirement System pursuant to G.S. 135-6(n) without regard to the rate used by the General Assembly in determining the amount appropriated in the Current Operations Budget Act.

The North Carolina General Assembly appropriated funds to be used by State departments, institutions and agencies in its Budget Act of 1976, for such purposes as salaries, employer contributions due the Retirement System, and other expenses connected with the operation of the departments. The Budget Act appropriates a lump sum to each department for "current operations." The amounts expected to be used for employer contributions to the Retirement System are not specified, but are merely part of the "current operations-general fund" allocation. The only provisions which speak specifically to the Retirement System are a "Reserve for Retirement, Social Security, Hospitalization Insurance & Unemployment Compensation of Teachers and State Employees" of $3,176,446.00, an "Employers Retirement Contribution for Central Offices & Division of Highways" within the Department of Transportation of $9,994,282.00, and a "Reserve

for Increased Retirement Benefits," also within the Department of Transportation of $220,000.00. With the possible exception of the "Employer's Retirement Contribution for Central Offices & Division of Highways" appropriation in the Department of Transportation, funds available to the departments and agencies for payment of employer contributions are not specifically ear-marked as such, but are part of their current operations appropriation. The two reserves for retirement purposes do not speak to the amount of employer contributions to be paid, but merely provide an added resource if other funds are insufficient. Information has been presented that the General Assembly relied upon a figure of 9.12% in determining how much money should go into the General Fund for purposes of employer contribution payments by the various departments and agencies of the State. However, there is nothing in this appropriations act which indicates the dollar amount of money allocated for that particular purpose to any individual department or agency, with the one exception mentioned, and nothing to indicate the percentage figure employed by the General Assembly in determining either the total amount of the general fund or the part of the general fund which should be used for employer contributions.

The Board of Trustees of the Teachers' and State Employees' Retirement System has increased the rate of employer contributions for retirement purposes to 9.22%. The question has been raised whether the Board of Trustees may raise the rate to 9.22% when the General Assembly relied upon a rate of 9.12% and rejected a rate of 9.22% in making estimates for the amount to go into the general fund for current operations of the departments. North Carolina General Statutes §135-6(n) authorizes the Board of Trustees of the Retirement System to "[c]ertify the rates of contributions payable by the State of North Carolina on account of new entrants at various ages." The Board must take into account the result of an actuarial investigation into the mortality, service and compensation experience of members and beneficiaries of the Retirement System, and an evaluation of the assets and liabilities of the funds of the System made by the actuary. Such actuarial investigations are required by G.S. 135-6(n) to be conducted at least once each five (5) years. Additionally, G.S. 135-8(d) provides that employers shall pay into the Retirement System a percentage of each employee's wages known as the "normal contribution rate" and the "accrued liability contribution" rate, based on the required actuarial valuations. Further evidence of the authority of the Board of Trustees comes from G.S. 135-8(f), which requires the Board to certify bienially to the Department of Administration a statement of the total amount necessary for the pension accumulation and expense funds. The

statute provided a rate to be followed until the first valuation could be made and the rates then computed on the basis of the actuarial valuation. The statute appears clearly to give the Board of Trustees the authority, in reliance upon the results of the required actuarial investigations, to establish the rate of employer contributions to the Retirement System. The question is then whether the appropriations act limits or negates this authority.

> "Under provisions contained in the constitutions of many states no money may be paid or drawn from the state treasury or warrant drawn therefor except in pursuance of specific appropriations made by law. The object of such a provision is to prevent the expenditure of the people's funds without their own consent, expressed either by themselves in the state constitution or by their representatives in legislative acts. Under such a provision the existence of the required appropriation is a condition to enforcement of claims against and of obligations of, the state, but it has been held that the payment of a necessary governmental expense incurred under express legislative authority may be compelled, even though the appropriation therefor has been exhausted." 81 CJS, States, §160.

North Carolina does have a constitutional provision requiring appropriations in order for money validly to be expended by the State. Article V, §7(1), of the North Carolina Constitution, provides that:

> "No money shall be drawn from the State treasury but in consequence of appropriations made by law, and an accurate account of the receipts and expenditures of the State funds shall be published annually."

This requirement has been recognized in numerous cases in the courts of this State. "Moneys paid into the hands of the State Treasurer by virtue of a State law become public funds for which the Treasurer is responsible, and may be disbursed only in accordance with legislative authority." State v. Davis, 270 N.C. 1, 13, 153 S.E.2d 749 (1967); Gardner v. Board of Trustees of North Carolina Local Governmental Employees' Retirement System, 226 N.C. 465, 468, 38 S.E.2d 314 (1946).

Clearly, there must be an appropriation in order for the State departments, institutions and agencies to pay the employer contribution rate to the Retirement System. "The proceeds of State tax levies appropriated by the General Assembly for one purpose may not lawfully be disbursed by State Officers for a different purpose and citizens and taxpayers of the State may sue to restrain such illegal diversion of public funds." Lewis v. White, 287 N.C. 625, 216 S.E.2d 134 (1975). The agencies and departments of the State government may not lawfully pay or have paid to the Teachers' and State Employees' Retirement System monies which were appropriated for a purpose other than for payment of the employer contribution rate.

As established before, the lump sum appropriations to the general fund for current operations of the departments do not specify a particular amount or a particular rate of payments to the Retirement System by the departments and agencies as payments of the employer contributions rate for their employees. "It has been held that a constitutional provision that no money be withdrawn from the treasury except in pursuance of appropriations made by law does not require that appropriations be detailed, definite, or specific, and does not forbid a lump sum appropriation for a number of related purposes." 81 CJS, States, §164(c).

"Unless required by the Constitution, an appropriation need not be itemized, and the appropriation of a lump sum to a State department or institution to be allocated by it for the stated purpose is valid." 81 CJS, States, §164(d). The General Assembly lawfully appropriated a lump sum to the various State departments and agencies for purposes of current operations of those departments and agencies. The appropriation was valid without a separate statement of the amount and purpose of each item which might be included within the funds allotted for current operations.

Of course, State departments, institutions, and agencies in North Carolina are restricted in the manner in which they spend monies appropriated to them not only by the Appropriations Act, but also by the provisions of the Executive Budget Act, Article 1 of Chapter 143 of the North Carolina General Statutes. The Director of the Budget must submit to the General Assembly a complete and itemized plan of all proposed expenditures for each State department, institution, or agency or any other person or organization using State funds. N.C.G.S. §143-11. The Director of the Budget, with the advice of the Advisory Budget Commission, then prepares and submits the "Budget Appropriation Bill" and "Budget Revenue Bill" to the General Assembly. N.C.G.S. §143-12. The General Assembly then reduces, increases, and strikes out appropriations in the "Budget Appropriation Bill." N.C.G.S. §143-15.

Once the "Budget Appropriation Bill" is passed, each State department, institution, and agency may spend money only in accordance with the appropriation and the rules, requirements, and regulations made pursuant to the Executive Budget Act. N.C.G.S. §143-16. Each State department, institution, or agency must submit to the Director of the Budget requests for payment of appropriations made to them in the form of a budget which follows the recommendations of the Director of the Budget and the Advisory Budget Commission, and any amendments by the General Assembly. N.C.G.S. §143-33. Anyone who violates the provisions of the Act or refuses to perform rules or requirements of the Director of the Budget made under the authority of the Executive Budget Act is subject to a $250 penalty and also is guilty of a misdemeanor. N.C.G.S. §143-33. Consequently, State departments, institutions and agencies may not ordinarily spend money in excess of the amount itemized for a particular purpose in the budget report. However, North Carolina General Statutes §143-23 should make it possible for them to comply with the requirements of the Executive Budget Act and also to make the increased payments to the Retirement System in accordance with the employer contribution rate set by the Board of Trustees of the Teachers' and State Employees' Retirement System.

> "143-23. <u>All maintenance funds for itemized purposes; transfers between objects and items.</u> --All appropriations now or hereafter made for the maintenance of the various departments, institutions and other spending agencies of the State, are for the purposes and/or objects enumerated in the itemized requirements of such departments, institutions and other spending agencies submitted to the General Assembly by the Director of the Budget and the Advisory Budget Commission, and/or as amended by the General Assembly. Transfers or changes as between objects and items in the budget of any department, institution or other spending agency, may be made at the request in writing of the head of such department, institution or other spending agency by the Director of the Budget." N.C.G.S. §143-23.

By allowing transfer or changes as between particular objects and items in the Budget of any department, institution or agency, N.C.G.S. §143-23 would allow the departments, institutions, and agencies to take advantage of other maintenance funds, or current operations items, to pay the increased employer

contribution rate. Opinion of Attorney General to Mr. Thomas J. White, Chairman, Advisory Budget Commission, 40 N.C.A.G. 286 (1970). See also Styers v. Phillips, 277 N.C. 460, 178 S.E. 2d 583 (1971). The State departments, institutions, and agencies could face a real dilemma in complying with the requirements for payment of the employer contribution rate if there were not sufficient funds available in other items listed under maintenance or current operations of their budgets and the Appropriations Act available for transfer for payment of the employer contribution rate.

In Styers v. Phillips, supra., the Supreme Court of North Carolina decided that the State Board of Education had authority to allocate funds from an appropriation for the Nine Months School Fund to city and county boards of education for the purpose of transporting urban pupils to and from schools located within the corporate limits of the cities and towns in which they lived. A federal court had held unconstitutional a North Carolina statute denying transportation to urban pupils residing in areas which were within the boundaries of municipalities on February 6, 1957, but providing transportation for pupils in areas annexed by municipalities after that date. Clearly, the appropriations for county and city transportation of pupils for that school year did not contemplate providing transportation to all pupils within municipalities living a certain distance from the schools without regard to when those areas had been annexed. The Court noted that the only statutory restriction upon the funds which were subsequently allocated for transportation of such pupils was that they be used for transportation purposes, and that neither the Appropriations Act nor the Budget Advice earmarked transportation funds for transportation of children according to where they lived or the time at which the municipality annexed the areas in which they lived. The court determined that funds appropriated for transportation of pupils could be used to transport pupils within the municipalities who had not been considered eligible for transportation by the local boards before the federal court ruling. It rejected the argument that the legislature's failure to appropriate sufficient money to transport all the pupils involved manifested an intention that no tax funds should be spent for intra-city transportation. It also rejected the argument that legislative intent could be shown through statements of specific legislators or the introduction of a bill and failure to pass which would have achieved a result similar to the one accomplished by administrative action after the federal court ruling. Thus, the Supreme Court of North Carolina ruled that funds could be spent in excess of the amount contemplated by the General Assembly and perhaps in a somewhat different way from that contemplated by the General Assembly when the manner in which the funds were spent fell within the language and general purpose of the appro-

priations. The court rejected extrinsic evidence of a legislative intent that the appropriation not be utilized for intracity transportation. The language of the statutes controlled.

We have here a situation comparable to that presented in Styers v. Phillips, supra. The provisions of N.C.G.S. §135-6(n) and §135-8(d) and (f) clearly authorize the Board of Trustees of the Teachers' and State Employees' Retirement System to set the employer contribution rate to be paid by State departments and agencies to the Retirement System. The Appropriations Act allocates funds to the various departments and agencies for the purpose of conducting their current operations, which would include payment of the employer contribution rate required to be paid to the Retirement System for member employees. The Appropriations Act does not specify the rate at which such employers contributions are to be paid or the total dollar amount to be paid by the individual departments and agencies for employer contributions. Since the Appropriations Act and the relevant substantive statutes clearly authorize the agencies and departments to pay employer contributions to the Retirement System, they must do so at the rate established by the Board of Trustes of the Teachers' and State Employees' Retirement System pursuant to N.C.G.S. §135-6(n) and §135-8(d) and (f), as long as they comply with the requirements of the Executive Budget Act, Article 1, Chapter 143 of the General Statutes of North Carolina. The intent of the legislature cannot be established by extrinsic statements of members of the General Assembly. Its use of the figure 9.12% in deciding how much to allow for employer contributions in the general fund-current operations appropriations for the various departments and agencies does not restrict or prevent the Board of Trustees of the Teachers' and State Employees' Retirement System from requiring that the departments and agencies pay the employer contributions at a rate of 9.22%, nor does it allow the departments and agencies to avoid paying the 9.22% rate.

RUFUS L. EDMISTEN
ATTORNEY GENERAL

Norma S. Harrell
Associate Attorney General

NSH/ch

TEACHERS' AND STATE EMPLOYEES' RETIREMENT SYSTEM

1. Statement of actuarial assumptions:
   a. Interest rate 5%.
   b. Salary increase rates:

age	State Employees	Male Teachers	Female Teachers
25	.0689	.0689	.0689
35	.0526	.0526	.0526
45	.0279	.0279	.0279
55	.0226	.0226	.0226
60	.0195	.0195	.0195

   c. Normal liability contribution rate 4.95% of payroll.
   d. Turnover or withdrawal rates:

age	State Employees	Male Teachers	Female Teachers
25	.1350	.0997	.1283
35	.0818	.0606	.0561
45	.0494	.0367	.0233
55	.0321	.0203	.0118
60			

   e. Disability rates:

age	State Employees	Male Teachers	Female Teachers
25	.0006	.0001	.0003
35	.0010	.0003	.0004
45	.0026	.0011	.0012
55	.0052	.0034	.0035
60			

   f. Mortality rates:

age	State Employees	Male Teachers	Female Teachers
25	.0009	.0005	.0003
35	.0014	.0012	.0006
45	.0028	.0025	.0013
55	.0075	.0050	.0029
60	.0108	.0070	.0045

   Death Benefit 0.35% of payroll.
   g. Life expectancy in years:

	Male		Female	
age	State Employees	Teachers	State Employees	Teachers
60	17.2	18.0	22.1	22.9
65	13.8	14.5	18.2	19.0

   h. Projected increases in post-retirement allowances - increase equal to actual increase in Consumer Price Index not to exceed 8%, payable July 1, 1976.
2. Unfunded accrued liability:

% of Payroll	Amount in Dollars
3.82% for 1975-76; 3.92% for Thereafter	$825,406,811

3. Liquidation of unfunded accrued liability 27 years.
4. Present reserve for retirement allowances $669,930,169.

LOCAL GOVERNMENTAL EMPLOYEES' RETIREMENT SYSTEM

1. Statement of actuarial assumptions:
   a. Interest rate 4½%.
   b. Salary increase rates:

age	General Employees	Firemen and Policemen
25	.0589	.0362
35	.0426	.0196
45	.0179	.0129
55	.0126	.0100
60	.0095	.0095

   c. Normal liability contribution rate 3.24%.
   d. Turnover or withdrawal rates:

age	General Employees	Firemen and Policemen
25	.1350	.1160
35	.0818	.0635
45	.0494	.0470
55	.0321	.0470
60		

   e. Disability rates:

age	General Employees	Firemen and Policemen
25	.0006	.0003
35	.0010	.0006
45	.0026	.0013
55	.0052	.0054
60		.0129

   f. Mortality rates:

age	General Employees		Firemen and Policemen
	Male	Female	
25	.0009	.0003	.0010
35	.0014	.0006	.0015
45	.0028	.0013	.0031
55	.0075	.0029	.0076
60	.0108	.0045	.0107

   Death benefit varies from unit to unit (average rate 0.35%).
   g. Life expectancy in years:

age	Male	Female
60	17.7	20.5
65	14.4	17.0

   h. Projected increases in post-retirement allowances - increase equal to actual increase in Consumer Price Index not to exceed 8%, payable July 1, 1976.
2. Unfunded accrued liability:

% of Payroll	Amount in Dollars
Varies from unit to unit (average rate 2.07%)	$50,206,161

3. Liquidation of unfunded accrued liability - varies from zero to 24 years (average 13.3 years).
4. Present reserves for retirement allowances $61,143,741

SURVEY CONDUCTED BY THE TEACHERS' AND STATE EMPLOYEES' RETIREMENT SYSTEM OF NORTH CAROLINA

		Liquidation Period for Accrued Liability	Interest Assumption Rate	Interest Credited to Accounts
	Teachers	27 years	5.0%	4.0%
North Carolina	State	27 years	5.0%	4.0%
	Local	Varies with Unit	4.5%	4.0%
	Teachers	24 years (*)	4.75%	4.0%
Alabama	State	24 years (*)	4.75%	4.0%
	Local	24 years (*)	4.75%	4.0%
	Teachers	33 years	6.5%	0%
Florida	State	33 years	6.5%	0%
	Local	33 years	6.5%	0%
	Teachers	Interest only	5.0%	4.5%
Georgia	State	40 years	4.5%	4.0%
	Local	N/A	N/A	N/A
	Teachers	30 years	4.5%	3.0%
Kentucky	State	1%/year + interest	6.0%	3.0%
	Local	1%/year + interest	6.0%	3.0%
	Teachers	39 years	5.25%	4.0%
South Carolina	State	39 years	5.25%	4.0%
	Local	39 years	5.25%	4.0%
	Teachers	40 years	5.38%	5.0%
Tennessee	State	40 years	5.38%	5.0%
	Local	40 years	5.38%	5.0%
	Teachers	40 years	5.25%	4.0%
Virginia	State	40 years	5.25%	4.0%
	Local	40 years	5.25%	4.0%

(*) Not comparable because the accrued liability is not funded on the same basis as ours.

S. B. 954 **CHAPTER 983**

AN ACT TO MODIFY CURRENT OPERATIONS AND CAPITAL IMPROVEMENTS APPROPRIATIONS FOR NORTH CAROLINA STATE GOVERNMENT FOR THE FISCAL YEAR 1976-77, AND TO MAKE OTHER CHANGES IN THE BUDGET OPERATION OF THE STATE.

The General Assembly of North Carolina enacts:

—RETIREMENT SYSTEM EMPLOYEE CONTRIBUTION/STUDY

Sec. 25. The Fiscal Research Division of the Legislative Services Commission is authorized and empowered to have an examination conducted of the Teachers' and State Employees' Retirement System to determine the appropriate employers' matching contribution rate that should be used for the 1977-79 biennium, and to study funding arrangements to support hospitalization insurance for retired teachers and State employees. The results of these studies shall be made available to the 1977 General Assembly prior to the convening of the session.

—REVISE BENEFITS/LOCAL GOVERNMENTAL EMPLOYEES' RETIREMENT

Sec. 125. G.S. 128-21(5), as it appears in 1974 Replacement Volume 3B of the General Statutes, is hereby amended by striking out the word "five" in line 2 and inserting in lieu thereof the word "four".

Sec. 126. The first four lines of G.S. 128-27(b4), as it appears in 1974 Replacement Volume 3B of the General Statutes, are rewritten to read as follows:

"(b4) Service Retirement Allowances of Members Retiring on or after July 1, 1973, but prior to July 1, 1976.—Upon retirement from service, in accordance with subsection (a) above, on or after July 1, 1973, but prior to July 1, 1976, a member shall receive a service retirement allowance computed as follows:"

Sec. 127. G.S. 128-27, as it appears in 1974 Replacement Volume 3B of the General Statutes, is further amended by the addition of a new subsection immediately after (b4) reading as follows:

"(b5) Service Retirement Allowances of Members Retiring on or after July 1, 1976.—Upon retirement from service, in accordance with subsection (a) above, on or after July 1, 1976, a member shall receive a service retirement allowance computed as follows:

(1) If the member's service retirement date occurs on or after his sixty-fifth birthday, regardless of his years of creditable service, or after the completion of 30 years of creditable service, such allowance shall be equal to one and one-half percent (1 1/2%) of his average final compensation, multiplied by the number of years of his creditable service.

(2a) If the member's service retirement date occurs on or after his sixtieth birthday but before his sixty-fifth birthday and prior to his completion of 30 or more years of service, his service retirement allowance shall be computed as in (1) above, but shall be reduced by one quarter of one percent (1/4 of 1%) thereof for each month by which his retirement date precedes the first day of the month coincident with or next following his sixty-fifth birthday.

(2b) If the member's service retirement date occurs before his sixtieth birthday and prior to his completion of 30 or more years of creditable service, his service retirement allowance shall be the actuarial equivalent of the allowance payable at the age of 60 years as computed in (2a) above.

(3) Notwithstanding the foregoing provisions, any member whose creditable service commenced prior to July 1, 1965, and uniformed policemen or firemen not covered under the Social Security Act employed thereafter, shall receive not less than the benefits provided by G.S. 128-27(b)."

Sec. 128. G.S. 128-27(t), as it appears in the 1975 Supplement to Volume 3B of the General Statutes, is amended by striking out the date "June 30, 1963" in line 6 and inserting in lieu thereof the date "June 30, 1965".

Sec. 129. G.S. 128-30(b)(1), as the same appears in the 1974 Replacement Volume of the General Statutes, is hereby amended by inserting after the comma and before the word "the" in line 13 of the second paragraph the following: "and ending June 30, 1976,".

Sec. 130. G.S. 128-30(b)(1), as it appears in 1974 Replacement Volume 3B of the General Statutes, is further amended by adding a new paragraph at the end to read as follows:

"Notwithstanding the foregoing, effective July 1, 1976, with respect to compensation paid on and after July 1, 1976, the rate of such deductions shall be six percentum (6%) of the compensation received by any member. Such rates shall apply uniformly to all members of the retirement system, irrespective of class."

—EFFECTIVE DATES

Sec. 150. Sections 60 through 85 of this act that relate to amendment of the Administrative Procedure Act, G.S. Chapter 150A and related G.S. sections, shall become effective upon ratification. These sections are under the heading "—AMEND THE ADMINISTRATIVE PROCEDURES ACT AND RELATED STATUTES."

Sec. 151. (Text deleted)

Sec. 152. All other provisions of this act shall become effective July 1, 1976.

In the General Assembly read three times and ratified, this the 14th day of May, 1976.

APPENDIX P

TEACHERS' AND STATE EMPLOYEES' RETIREMENT SYSTEM

House Resolution 1200

Updated for 7%
Cost-of-living increase
Effective 7/1/76

Group I — 30 or more years' service; under age 62, retired between July 1, 1971 and June 30, 1973 - membership service only:

$925,027

Other related groups not to be ignored:

GROUP IA — 30 or more years' service; under age 62; retired between July 1, 1971 and June 30, 1973 - all creditable service:

$2,935,050

Group II — 30 or more years' service; under age 62; retired between July 1, 1969 and June 30, 1971 - all creditable service:

$4,766,668

Group III — 30 or more years' service; under age 65; retired between July 1, 1963 and June 30, 1969 - all creditable service:

$5,843,046

Group IV — 30 or more years' service; under age 65; retired between July 1, 1942 and June 30, 1963 under Money Purchase Plan - all creditable service:

$2,434,812

Group I	$ 925,027
Group IA	2,935,050
	3,860,077
Group II	4,766,668
	8,626,745
Group III	5,843,046
	14,469,791
Group IV	2,434,812
Total	$16,904,603

6/24/76

COMPARISON SHOWING RETIREMENT BENEFITS OF TEACHERS AND STATE EMPLOYEES AS PERCENTAGE OF AVERAGE FINAL ANNUAL COMPENSATION

Average Final Annual Compensation *	Annual Social Security Benefit	Annual Normal Retirement Benefit	Percentage of Average Final Annual Compensation: Annual Normal Retirement Benefits	Percentage of Average Final Annual Compensation: Annual Normal Retirement and Social Security Benefits
$ 6,000	$ 3,463	$2,700	45%	103%
8,000	$ 3,972	$3,600	45%	95%
10,000	$ 4,314	$4,500	45%	88%
12,000	$ 4,648	$5,400	45%	84%
15,000	$ 4,648	$6,750	45%	76%
18,000	$ 4,648	$8,100	45%	71%
20,000	$ 4,648	$9,000	45%	68%
25,000	$ 4,648	$11,250	45%	64%

T-9

* Figures for comparison based upon the following hypothetical fact situation: An employee retires at the present time on his 65th birthday, and with 30 years of credit in the retirement system. The employee has earned the stipulated average final annual compensation.

COMPARISON OF TEACHERS' AND STATE EMPLOYEES' RETIREMENT BENEFITS TO THOSE OF SELECTED PRIVATE EMPLOYEES IN NORTH CAROLINA

	Contribution Rates		Vesting Period	Years Service To Qualify for Disability	Conditions for Unreduced Benefit	
	Employers	Employees			Age	Service
STATE						
Teachers' and State Employees	9.12%	6%	5 years	5 years	65 Any	Any 30
PRIVATE N. C. BUSINESSES						
Insurance Co. Firm A	Full Cost	0%	10 years	4 years	65	15
Tobacco Co. Firm B	Full Cost	0%	10 years	15 years	65 55	Any 30
Textiles Firm C	Varies	2%	10 years	Service and age must total 35 years	65	Any
Utilities Co. Firm D	Full Cost	0%	10 years	10 years	65	10
Bank Firm E	Full Cost	0%	10 years	2 years	65	Any

COMPARISON OF TEACHERS' AND STATE EMPLOYEES' RETIREMENT BENEFITS TO THOSE OF SELECTED PRIVATE EMPLOYEES IN NORTH CAROLINA

		Monthly Benefit *			Percentage of Average Final Annual Compensation to Annual Retirement and Social Security Benefits	Stock Option or Profit Sharing Plan
		Retirement	Social Security	Total		
STATE						
	Teachers' and State Employees	$375	$338	$713	86%	No
PRIVATE N. C. BUSINESSES						
Insurance Co.	Firm A	$345	$338	$683	(1)	No
Tobacco Co.	Firm B	$326	$338	$664	80%	Yes
Textiles	Firm C	$312	$338	$650	68%	No
Utilities Co.	Firm D	$283	$338	$621	(1)	No
Bank	Firm E	$248	$338	$586	70%	No

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Note:

(1) Total career average salary used

* Retirement and Social Security Benefits based upon the following hypothetical fact situation: An employee retires at the present time, on his 65 birthday, and with 30 years of credit in the retirement system. The employees' average final annual compensation is $10,000.

Updated to July 1, 1976

TEACHERS

SELECTED COMPARISON OF RETIREMENT BENEFITS AS OF JANUARY 1, 1976

STATE	COVERAGE	CONTRIBUTION RATES EMPLOYER	CONTRIBUTION RATES EMPLOYEE	VESTING PERIOD	SERVICE CREDITS	YEARS TO DETERMINE AVERAGE FINAL COMPENSATION (AFC)
NORTH CAROLINA:	Teachers and State Employees.	9.12%	6%	5 years of service	Prior, membership, military, out-of-state, restore withdrawn accts., unused sick leave, leave of absence (educational)	4 consecutive years producing highest in career.
Alabama:	Teachers Only	15.55%	5%	10 years of service over age 55, or 15 years of ser. under age 55.	Prior, membership, military, restore withdrawn acct.	3 highest out of last 10 years.
Florida:	Teachers; State and county employees; cities (optional); policemen & firemen; elected officials.	9%	None	10 years of service	Prior, membership, military	5 highest out of last 10 years.
Georgia:	Teachers and School Administrative Personnel.	8.936%	6%	10 years of service.	Prior, membership, military, out-of-state, restore withdrawn acct. dependent schools (military)	5 consecutive highest years.
Kentucky:	Teachers Only	9.9%	7.7%	5 years of service	Prior, membership, military, out-of-state, restore withdrawn accts, leave of absence (educational)	5 consecutive years producing highest in career.
South Carolina:	Teachers, State Employees and Local Governmental Employees (optional).	7.10%	4% to $4,800 and 6% above	15 years	Prior, membership, military, out-of-state, restore withdrawn accts, leave of absence (educational) and maternity leave.	3 consecutive years producing highest in career.
Tennessee:	Teachers, State Employees; Political Subdivisions (optional); Firemen and Police; Elected Officials.	11.5%	4.5% up to maximum taxable for Social Security and 5% in excess	4 years	Prior, membership, military, unused sick leave, restore withdrawn accounts.	5 consecutive years producing highest in career.
Virginia:	Teachers, State Employees, municipal employees (optional),	4.44%	5%	5 years	Prior, membership, military (prior membership required), restore withdrawn accounts	3 consecutive years producing highest in career.

APPENDIX S

TEACHERS

STATE	NORMAL RETIREMENT Years of Service	Age	Formula	DISABILITY RETIREMENT Years of Service	Age	Formula	EARLY RETIREMENT Years of Service	Age	Formula
N. C.	Any	65	1.5% x AFC x years of service	5	Under 65	Same as normal (service projected to age 65 as though member continued in service).	20	50	Same as normal (If less than 30 yrs. of service reduced by 3%/yr. from age 65 to age 60,& further red. act. to age at ret.
Ala.	10	60	2.0125% x AFC x years of service	10 but less than 30	Under 60	2.0125% x AFC x ser. less ¼ of 1%/month from age 60 to age at retirement (max. reduction 25%).			NONE
Fla.	10 10 10 10	62 63 64 65	1.6% x AFC x service 1.63% x AFC x service 1.65% x AFC x service 1.68% x AFC x service	Line of Duty: Any Other: 5 5	 Any 50-62 Under 50	 1.6% x AFC x Ser. (Min. 42% of AFC)not projected. As above(Min.25% of AFC). As above(less 5%/yr.from age 62)not projected.	10	Minimum of 43	1.6% of AFC x years of service (-) 5% reduction for each year under age 62.
Ga. 8-2	Any	62	.0176 x AFC x years of service	10	Any	Same as normal (not projected).	10	60	Same as normal but reduced 3% per year from age 60.
Ky.	5	60	2% x AFC x years of service	8	Any	During first 5 yrs.,½ of compensation;after 5 yrs, recalculated on basis of earned service credit. Minimum is 26%.	30	Any	Same as normal, but reduced 3% for each year member retires prior to age 55.
S. C.	5	65	1.25% up to $4800 + 1.65% above $4800 x AFC x years of service	5	Any	Same as normal(Service projected to age 65 minus actuarial equipment of contr.which would have been made had ser.cont.).	Any	60	Same as normal, reduced by 5% per year from age 65.
Tenn.	Any	65	1.75% x AFC x years of service minus .25% x $6600 x years of service	5	Any	Same as normal (Service projected to age 65 with a max. of 20 yrs. of service credit).	Any	55	Same as norm., but red. by .4%/ea.mo. of the dif. between act. age or ser. between age 65 or 35 yrs.of ser.,whichever is less.
Va.	Any	65	.015% x AFC x yrs. of service if AFC is not more than $13,200,if more, .0165% x AFC minus $1200 x years of service	5	Any	Same as normal, but if less than age 60, serv. equals the lesser of 2 times actual ser. or ser. projected to age 60.			NONE

TEACHERS

STATE	UNREDUCED SERVICE RETIREMENT	DEATH BENEFIT FORMULA	SOCIAL SECURITY INTEGRATION (How Accomplished)	QUALIFIED RETIREMENT SYSTEM UNDER 26 U.S.C. § 401 (a)
N. C.	30 years of service, regardless of age	Benefit equal to preceding years earnings, with a maximum benefit of $15,000.	In addition to Retirement Benefit.	Yes
Ala.	30 years of service, regardless of age	Flat $5,000	In addition to Retirement Benefit	No
Fla.	Age 58 with 35 years aggregate service; any age with 35 years continuous service	None	In addition to Retirement Benefit	No
Ga.	30 years of service, regardless of age	None	Local Option - All but 8 counties have elected coverage in addition to Retirement Benefit	No
Ky.	Age 55 with 30 years of service	Flat $2,000 payable to estate	Not covered	Yes
S. C.	30 years of service, regardless of age	Group Life	In addition to Retirement Benefit	No
Tenn.	35 years of service, regardless of age	2 times accumulated contributions plus interest	In addition to Retirement Benefit	No
Va.	60 years of age with 30 years of service	Group Life equal to 2 times salary and double for accidental death. Members pay 60% of cost.	In addition to Retirement Benefit member limited to 100% of AFC plus ½ Social Security Benefit.	Yes

STATE		MONTHLY BENEFITS FOR PRESENT RETIREES[1]			MONTHLY BENEFITS FOR PAST RETIREES[2]		
		Retirement	Social Security	Total	Retirement	Social Security	Total
N. C.	Age 65	$375.00	$368.10	$743.10	$414.54	$326.50	$741.04
	Age 62	$375.00	$278.70	$653.70	$414.54	$244.00	$658.54
Ala.	Age 65	$503.13	$368.10	$871.23	$503.13	$326.50	$829.63
	Age 62	$503.13	$278.70	$781.83	$503.13	$244.00	$747.13
Fla.	Age 65	$420.00	$368.10	$788.10	$479.80	$326.50	$806.30
	Age 62	$400.00	$278.70	$678.70	$424.36	$244.00	$668.36
Ga.	Age 65	$440.00	$368.10	$808.10	$510.24	$326.50	$836.74
	Age 62	$440.00	$278.70	$718.70	$494.93	$244.00	$738.93
Ky.	Age 65	$500.00	None	$500.00	$525.51	None	$525.51
	Age 62	$500.00	None	$500.00	$525.51	None	$525.51
S. C.	Age 65	$364.50	$368.10	$732.60	$409.04	$326.50	$735.54
	Age 62	$364.50	$278.70	$643.20	$347.68	$244.00	$591.68
Tenn.	Age 65	$396.25	$368.10	$764.35	$439.49	$326.50	$765.99
	Age 62	$339.19	$278.70	$617.89	$376.20	$244.00	$620.20
Va.	Age 65	$375.00	$368.10	$743.10	$452.64	$326.50	$779.14
	Age 62	$375.00	$278.70	$653.70	$452.64	$244.00	$696.64

1. Figures for comparison based upon the following hypothetical situation: An employee retires at th present time, on his 65th birthday, and with 30 years of credit in the retirement system. The employee has earned $10,000 a year for the last 10 years of his employment.

2. Figures for comparison based upon the following hypothetical situation: A retiree worked until hi 65th birthday and retired. He had 30 years of credit in the retirement system in which he retired He earned $10,000 a year for the last 10 years which he worked. He is now 70 years old, five year having elapsed.

Updated July 1, 1976

STATE EMPLOYEES

SELECTED COMPARISON OF RETIREMENT BENEFITS AS OF JANUARY 1, 1976

STATE	COVERAGE	CONTRIBUTION RATES EMPLOYER	CONTRIBUTION RATES EMPLOYEE	VESTING PERIOD	SERVICE CREDITS	YEARS TO DETERMINE AVERAGE FINAL COMPENSATION (AFC)
NORTH CAROLINA:	Teachers and State Employees	Same as Teachers		Same as Teachers	Same as Teachers	Same as Teachers
Alabama:	State Employees; State Police; Local Governmental Employees (Optional)	10.27%	5%	Same as Teachers	Same as Teachers	Same as Teachers
Florida:	Teachers; State and county employees; cities (optional); policemen & firemen; elected officials.	Same as Teachers		Same as Teachers	Same as Teachers	Same as Teachers
Georgia:	State Employees, Appellate Judges, State Police, County Tax Officials, State Court Employees	8%	With Soc. Sec.: 3% to $4,200 and 5% on excess Without Soc.Sec.: 5% of Salary	Same as Teachers	Prior, membership, military (prior membership ser. required), restore withdrawan accts., unused sick leave	Highest 8 consecutive calendar quarters
Kentucky:	State Employees and County Employees	7¼%	4%	8 years of service	Prior (must be purchased), membership, military, restore withdrawn accounts.	Same as Teachers
South Carolina:	Teachers, State Employees and Local Governmental Employees (Optional)	Same as Teachers		Same as Teachers	Same as Teachers	Same as Teachers
Tennessee:	Teachers, State Employees; Political Subdivisions (Optional); Firemen & Police; Elected Officials	5.35%	4.5% up to maximum taxable for Social Security & 5% on excess	Same as Teachers	Same as Teachers	Same as Teachers
Virginia:	Teachers, State Employees, municipal employees (Optional)	2.16%	5%	Same as Teachers	Same as Teachers	Same as Teachers

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APPENDIX T

STATE EMPLOYEES

STATE	NORMAL RETIREMENT Years of Service	Age	Formula	DISABILITY RETIREMENT Years of Service	Age	Formula	EARLY RETIREMENT Years of Service	Age	Formula
N. C.	Same as Teachers			Same as Teachers			Same as Teachers		
Ala.	Same as Teachers			Same as Teachers			Same as Teachers		
Fla.	Same as Teachers			Same as Teachers			Same as Teachers		
Ga.	Any	65	Over $4200: 1.18% for 1st yr. increasing .03% each yr. thereafter x AFC x ser. Under $4200: 60% of above (non S.S. receives additional annuity at retirement	13.333 to 18 18.083 to 22 22.833 to 27 27.583 and above	Any Any Any Any	75% of age 60 allowance Full age 60 allowance 75% of age 65 allowance Full age 65 allowance	10	60	Same as normal but reduced 5% per year from age 65.
Ky.	8	65	1.6% AFC x years of service	5	Under 65	Same as normal (Service doubled but not to exceed 25 years)	8	55	Same as normal, but reduced 5% per year from age 65 to age 60, and 4% per year from age 60 to age 55.
S. C.	Same as Teachers			Same as Teachers			Same as Teachers		
Tenn.	Same as Teachers			Same as Teachers			Same as Teachers		
Va.	Same as Teachers			Same as Teachers			Same as Teachers		

STATE EMPLOYEES

STATE	UNREDUCED SERVICE RETIREMENT	DEATH BENEFIT FORMULA	SOCIAL SECURITY INTEGRATION (How Accomplished)	QUALIFIED RETIREME SYSTEM UNDER 26 U.S.C. § 401 (a
N. C.	Same as Teachers	Same as Teachers	Same as Teachers	Same as Teachers
Ala.	Same as Teachers	Same as Teachers	Same as Teachers	Same as Teachers
Fla.	Same as Teachers	Same as Teachers	Same as Teachers	Same as Teachers
Ga.	35 years of service regardless of age	Group Life equal to from 12 to 18 times monthly salary depending on years of service.	In addition to Retirement Benefit	Same as Teachers
Ky.	Same as Teachers	None	In addition to Retirement Benefit	Same as Teachers
S. C.	Sames as Teachers	Same as Teachers	Same as Teachers	Same as Teachers
Tenn.	Same as Teachers	Same as Teachers	Same as Teachers	Same as Teachers
Va.	Same as Teachers	Same as Teachers	Same as Teachers	Same as Teachers

STATE EMPLOYEES

STATE		Monthly Benefits for Present Retirees[1]: Retirement	Social Security	Total	Monthly Benefits for Past Retirees[2]:	Retirement	Social Security	Total
N. C.		Same as Teachers				Same as Teachers		
Ala.		Same as Teachers				Same as Teachers		
Fla.		Same as Teachers				Same as Teachers		
Ga.	Age 65 With S.S.	$490.98	$368.10	$859.08	With S.S.	$572.61	$326.50	$899.11
	Age 62	$417.33	$278.70	$696.03		$486.72	$244.00	$730.72
	Age 65 Without S.S.	$490.98	--	$490.98	Without S.S.	$572.61	--	$572.61
	Age 62	$417.33	--	$417.33		$486.72	--	$486.72
Ky.	Age 65	$400.00	$368.10	$768.10		$400.00	$326.50	$726.50
	Age 62	$400.00	$278.70	$678.70		$400.00	$244.00	$644.00
S. C.		Same as Teachers				Same as Teachers		
Tenn.		Same as Teachers				Same as Teachers		
Va.		Same as Teachers				Same as Teacher		

1. Figures for comparison based upon the following hypothetical situation: An employee retires at the present time, on his 65th birthday, and with 30 years of credit in the retirement system. The employee has earned $10,000 a year for the last 10 years of his employment.

2. Figures for comparison based upon the following hypothetical situation: A retiree worked until his 65th birthday and retired. He had 30 years of credit in the retirement system in which he retired. He earned $10,000 a year for the last 10 years which he worked. He is now 70 years old, five years having elapsed.

Updated July 1, 1976

SELECTED COMPARISON OF RETIREMENT BENEFITS AS OF JANUARY 1, 1976

LOCAL GOVERNMENTAL EMPLOYEES

STATE	COVERAGE	CONTRIBUTION RATES EMPLOYER	CONTRIBUTION RATES EMPLOYEE	VESTING PERIOD	SERVICE CREDITS	YEARS TO DETERMINE AVERAGE FINAL COMPENSATION (AFC)
NORTH CAROLINA:	Local Governmental Employees	Varies With Unit	Same as Teachers	5 years of service	Prior, mem., military ser. interrupted, unused sick leave, LOA (educ.). Optional other mil., restore withdrawn accts. & out-of-state	Same as Teachers
Alabama:	State Employees, State Police, Local Governmental Employees (Optional)	Same as State Employees		Same as Teachers	Same as Teachers	Same as Teachers
Florida:	Teachers; State and County Employees; Cities (Optional); Policemen and Firement; Elected Officials	General: 9% Police & Firemen: 13%	0% 0%	General: Same as Teach. Police & Firemen Same as Teach.	General: Same as Teachers Police & Firemen: Same as Teachers	General: Same as Teachers Police & Firemen: Same as Teachers
Georgia:	NO STATE-WIDE	SYSTEM	FOR LOCAL	GOVERNMENTAL	EMPLOYEES	
Kentucky:	State Employees and County Employees	Same as State Employees		Same as State Employees	Same as State Employees	Same as Teachers
South Carolina:	Teachers; State Employees; Local Governmental Employees (Optional)	5.95%	4% to $4800 and 6% above	Same as Teachers	Same as Teachers	Same as Teachers
Tennessee:	Teachers; State Employees; Political Subdivisions (Optional); Firemen and Police; Elected Officials	General: Varies/Unit Pol.&Fire.: Varies/Unit	Same as State Employees 5½% to max.tax & 7% above	General: 4 years Police & Firemen: 10 years	General: Same as Teachers Police & Firemen: Same as Teachers	General: Same as Teachers Police & Firemen: Same as Teachers
Virginia:	Teachers, State Employees & Municipal Employees (Optional)	Varies with Unit	5%	Same as Teachers	Same as Teachers	Same as Teachers

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APPENDIX U

LOCAL GOVERNMENTAL EMPLOYEES

STATE	NORMAL RETIREMENT Years of Service	Age	Formula	DISABILITY RETIREMENT Years of Service	Age	Formula	EARLY RETIREMENT Years of Service	Age	Formula
N. C.	Same as Teachers			Same as Teachers			Same as Teachers		
Ala.	Same as Teachers			Same as Teachers			Same as Teachers		
Fla.	General: Same as Teachers Police & Firemen: 10	55	3% AFC x years of service	General: Same as Teachers Police & Firemen: Same as Teachers			General: Same as Teachers Police & Firemen: Same as Teachers		
Ga. U-2	NO STATE-WIDE SYSTEM FOR LOCAL GOVERNMENTAL EMPLOYEES								
Ky.	Same as State Employees			Same as State Employees			Same as State Employees		
S. C.	Same as Teachers			Same as Teachers			Same as Teachers		
Tenn.	General: Same as Teachers Police & Firemen: Any	60	2.25% x AFC x ser.(-).5% x \$6600 x ser. offset by .4% for each mo. under age 65	General: Same as Teachers Police & Firemen: Same as normal/ser. projection Accidental Only: Covered by S.S.,1/3 of AFC; not covered S.S.,½ of AFC.			General: Same as Teachers Police & Firemen: 10	55	Same as normal but reduced by .4% for each mo. less than 25 years of service.
Va.	Same as Teachers			Same as Teachers			Same as Teachers		

LOCAL GOVERNMENTAL EMPLOYEES

STATE	UNREDUCED SERVICE RETIREMENT	DEATH BENEFIT FORMULA	SOCIAL SECURITY INTEGRATION (How Accomplished)	QUALIFIED RETIREMENT SYSTEM UNDER 26 U.S.C. § 401 (a)
N. C.	30 years of service, regardless of age	Benefit equal to preceiding years earnings, with a maximum benefit of $15,000 (optional with unit)	In addition to Retirement Benefit (Coverage is by Contract Only)	Yes
Ala.	Same as Teachers	Same as Teachers	Same as Teachers	Same as Teachers
Fla.	General: Same as Teachers Police & Firemen: Age 52 with 25 yrs. aggregate ser.; any age with 25 yrs. continuous service.	General: Same as Teachers Police & Firemen: Same as Teachers	General: Same as Teachers Police & Firemen: Same as Teachers	General: Same as Teachers Police & Firemen: Same as Teachers
Ga.	NO STATE-WIDE SYSTEM FOR LOCAL GOVERNMENTAL EMPLOYEES			
Ky.	Same as Teachers	Same as State Employees	Same as Teachers	Same as Teachers
S. C.	Same as Teachers	Same as Teachers	Same as Teachers (Coverage is by contract only)	Same as Teachers
Tenn.	General: Same as Teachers Police & Firemen: 55 with 25 yrs. of ser.	General: Same as Teachers Police & Firemen: Same as Teachers	General: Same as Teachers Police & Firemen: Same as Teachers on an Optional basis	General: Same as Teachers Police & Firemen: Same as Teachers
Va.	Same as Teachers	Same as Teachers	Same as Teachers	Same as Teachers

LOCAL GOVERNMENTAL EMPLOYEES

STATE	MONTHLY BENEFITS FOR PRESENT RETIREES[1] Retirement	Social Security	Total	MONTHLY BENEFITS FOR PAST RETIREES[2] Retirement	Social Security	Total
N. C.	Same as Teachers			Same as Teachers		
Ala.	Same as Teachers			Same as Teachers		
Fla. General: Age 65	Same as Teachers			Same as Teachers		
Age 62						
Police & Firemen: Age 65	$510.42	$368.10	$878.52 (*)	$583.10	$326.50	$909.60 (*)
Age 62	$510.42	$278.70	$789.12	$541.50	$244.00	$785.50
Ga.	NO STATE-WIDE SYSTEM FOR LOCAL GOVERNMENTAL EMPLOYEES					
Ky.	Same as State Employees			Same as State Employees		
S. C.	Same as Teachers			Same as Teachers		
Tenn. General: Age 65	Same as Teachers			Same as Teachers		
Age 62						
Police & Firemen: Age 65	$480.00	$368.10 if covered	$848.10 (*)	$532.38	$326.50 if covered	$858.88 (*)
Age 62	$491.88	$278.70	$770.58	$545.55	$244.00	$789.55
Va.	Same as Teachers			Same as Teachers		

*Unlikely because of age and service assumptions

1. Figures for comparison based upon the following hypothetical situation: An employee retires at the present time, on his 65th birthday, and with 30 years of credit in the retirement system. The employee has earned $10,000 a year for the last 10 years of his employment.

2. Figures for comparison based upon the following hypothetical situation: A retiree worked until his 65th birthday and retired. He had 30 years of credit in the retirement system in which he retired. He earned $10,000 a year for the last 10 years which he worked. He is now 70 years old, five years having elapsed.

APPENDIX V

STATE OF NORTH CAROLINA
DEPARTMENT OF THE TREASURER
EMPLOYEES' RETIREMENT AND HEALTH BENEFITS DIVISION
ALBEMARLE BUILDING
RALEIGH 27611

EDWIN GILL
STATE TREASURER

W. H. HAMBLETON
DIRECTOR

March 3, 1976

Mr. Terrence D. Sullivan
Committee Counsel
Legislative Research Commission
North Carolina General Assembly
Legislative Building
Raleigh, North Carolina 27611

Dear Mr. Sullivan:

Your letter of January 15, 1976 requested that we furnish a comparison of our benefit structure with those of systems in other states and a summary of what other states have done to insure the maintenance of the relative adequacy of benefits for retired employees. The material relating to the first part of the request has already been sent to you and the second part is covered in the attached analysis.

Chapter 851 of the Session Laws of 1975 requires that the Commission examine the feasibility of "providing a permanent plan for maintaining the relative adequacy of benefits for retired employees". Inasmuch as Chapter 851 speaks of a permanent plan, we have limited our study to those features of other systems which seem to be of a continuing nature. Most states have granted one-time legislative increases from time to time supported by direct appropriation just as we have on several occasions. This type of increase has become known and referred to as the "ad hoc" approach.

Of the 79 requests mailed by us, we had responses from 61 systems, or 77%. Actually, we failed to hear from at least one system in only 8 states. Of those responding 23, or 38%, have no permanent or continuing increase provision and 8, or 13%, are known to apply increases to the individual's base benefit so that there is no compounding effect.

Several of the states are in the process of trying to develop continuing permanent cost-of-living increase provisions and, from what we have seen, all are very much aware of the necessity of being sure that they are created on an actuarially sound basis.

Some states specify that this type of increase be paid out of interest income with the provision that if interest income is insufficient to support the increases, they will not be granted. This really is no different from our original statutory provision which states that increases will not be granted if additional liabilities on account of such increases require an increase in the employer rate of contributions.

The Employees' Retirement and Health Benefits Division includes the Teachers' and State Employees' Retirement System, North Carolina Local Governmental Employees' Retirement System, Uniform Judicial Retirement System, Uniform Solicitorial Retirement System, Legislative Retirement Fund, Public Employees' Social Security Agency, and the Division of Health Benefits for Teachers and State Employees.

We did not try to cover the local governmental systems unless they participate in state employee or combined systems. Many states do not have state-wide systems for local employees such as we have but leave retirement benefit programs to the jurisdiction of individual cities and counties.

Sincerely,

W. H. Hambleton

W. H. Hambleton

WHH/mpw

Attachment

SURVEY OF RETIREMENT SYSTEMS WITH RESPECT TO PERMANENT OR CONTINUING COST-OF-LIVING INCREASE PROVISIONS FOR RETIRED MEMBERS CONDUCTED BY THE TEACHERS' AND STATE EMPLOYEES' RETIREMENT SYSTEM OF NORTH CAROLINA

1976

Alabama (Employees)

Benefits for retired members recalculated in proportion to changes in benefit formula for active members when such occur.

Alabama (Teachers)

Same as above

Alaska (Employees)

Alaska (Teachers)

Arizona (Combined)

Arkansas (Employees)

Arkansas (Teachers)

1½% per year provided there is a 3% increase in the cost of living. Question currently under study by a legislative committee.

California (Employees)

For state members, maximum of 2% per year based on California Consumer Price Index. Benefits may also be reduced but not below base benefit. For local members, contracting agencies may provide for increases up to 5%.

California (Teachers)

2% per year applied to base benefit. No Compounding.

Colorado (Combined)

Up to 3% per year depending on change in Consumer Price Index. Applied to base benefit. No Compounding. May be reduced but not below base benefit. Financed by employee and employer contributions.

Connecticut (Employees)

Maximum of 3% annual increase based on change in Consumer Price Index from year to year.

Connecticut (Teachers)

Same as above

Delaware (Combined)

No Provision

Florida (Combined)

3% per year, applicable only after retiree reaches age 65.

Georgia (Employees)

1½% paid in January and July each year (not to exceed 3% in a given years).

Georgia (Teachers)

1½% paid in January and July each year (not to exceed 3% in a given year). Applicable only after retiree reaches age 62.

Hawaii (Combined)

Idaho (Combined)

Up to 3% per year based on increase in Consumer Price Index. Authority for increase vested in Board of Trustees. Provision dependent upon actuarial gains within the system.

Illinois (Employees)

Initially 1½% then increased to 2% of base benefit. No Compounding. Not related to change in Consumer Price Index (determined by Pension Laws Commission not to be feasible). Cost for members terminated prior to January 1, 1970 (must have had 15 or more years of service) supported by members contributions and interest earnings of the system; for those terminated January 1, 1970 or later, cost supported by increase in employee and employer contribution rates.

Illinois (Teachers)

A. Teachers retired with no creditable service after July 1, 1969.
   1. Requirements for eligibility:
      (a) 15 or more years of service at age 55 or thereafter.
      (b) 20 or more years of service if under age 55.
   2. First becomes effective the later of:
      (a) Attainment of age 65.
      (b) First anniversary in retirement.
      (c) Month following receipt of qualifying contribution.

Illinois (Teachers) Continued

3. Amount of increase - No Compounding:
   (a) 1½% per year of original allowance for periods prior to September 1, 1971.
   (b) Thereafter an additional increase of 2% of original allowance.
4. Requirements for qualification:
   (a) One-time payment of 1% of monthly salary on which original allowance was computed times years of creditable service, or
   (b) One-time payment of 1% of original monthly allowances times years of service if original allowance was not computed on basis of salary rate.

Retired Teacher Required to Contribute Toward Increase.

B. Teachers retired with creditable service after July 1, 1969.
   1. First becomes effective the later of:
      (a) Attainment of age 61.
      (b) First anniversary in retirement.
   2. Amount of increase - No Compounding:
      (a) 1½% of base pension per year for periods prior to January 1, 1972, and 2% per year for periods thereafter.
      (b) Thereafter an additional monthly increase of 2% of base pension.
   3. Requirements for qualification:
      (a) Employee Contributes ½% of earnings for this purpose.

Employee Required to Contribute Toward Increase.

Indiana (Employees)

No Provision

Indiana (Teachers)

No Provision

Iowa (Combined)

No Provision

Kansas (Combined)

No Provision

Kentucky (Employees)

1% per year.

Kentucky (Teachers)

No Provision

Louisiana (Employees)

Based on change in annual average all-items Consumer Price Index from year to year, benefits may be increased or decreased by 3% per year. May not be decreased below base benefit.

Louisiana (Teachers)

3% per year if Consumer Price Index, all items, increases by 3%. Benefits may be increased or decreased but not below base benefit. Limited to those who retired prior to June 1, 1975 according to Legislative Act, and is applied only to benefits not in excess of $10,000 per year.

Maine (Combined)

Retired members receive increases identical to the percentage increases in salary for active employees. Cost covered by state appropriations.

Maryland (Employees)

Increase equal to the average increase in the Consumer Price Index - Urban Wage Earners and Clerical Workers from year to year. Apparently increase each year applied to <u>base</u> benefit - <u>No Compounding</u>. Increases supported by direct appropriation form general funds of state.

Maryland (Teachers)

Same as above

Massachusetts (Employees)

Massachusetts (Teachers)

Michigan (Employees)

No Provision

Michigan (Teachers)

No Provision

Minnesota (Employees)

Adjustments dependent upon investment income and market value of stocks. If value of fund is greater than the required reserve by 2% or more, benefits are increased in same proportion annually. Reduction may also occur but never below original benefit.

Minnesota (Teachers)

Post-retirement increases are granted when investment yield is 2% in excess of assumed rate (presently 5%). Reductions may also occur but never below original benefit. No increases granted in the last several years.

Mississippi (Combined)

1½% per year in separate check applied to base benefit. No Compounding. Funded by increase in employer rate. Provision may be abolished at discretion of Board of Trustees.

Missouri (Employees)

Missouri (Teachers)

If cost-of-living increases 2% in preceding year, a 2% (maximum) increase may be added. Total cost-of-living increase limited to a total of 10%. If cost-of-living drops below level of first increase, benefits may be reduced but not below base benefit. Beginning date January 1977. This provision to be funded by increase in employee and employer contributions from 8% up to 9½% beginning with the 1976-77 school year. Three year waiting period.

Montana (Employees)

Montana (Teachers)

Nebraska (Employees)

No Provision

Nebraska (Teachers)

Nevada (Combined)

(a) Prior to July 1, 1975, an annual increase of 1½% was granted.
(b) Effective July 1, 1975, increases ranging from 2¼% to 5% were granted depending on year of retirement with the maximum increase going to those who retired in 1963 (those retired prior to 1963 received an outright increase of $50 per month). The graduated increases are scheduled to be paid again on July 1, 1976 but apparently do not continue thereafter.

New Hampshire (Combined)

No Provision

New Jersey (Employees)

100% of change in Consumer Price Index for those retired prior to 1955 and 50% of change for those retired subsequent to 1955 provided that they have been in receipt of benefits for at least 3 years. Benefits may also be reduced if change is negative. Increases supported by direct appropriations.

New Jersey (Teachers)

Same as above

New Mexico (Employees)

New Mexico (Teachers)

No Provision. Bill currently under consideration in Legislature.

New York (Employees)

No permanent provision. Supplemental increases have been granted on a temporary basis with no provision for continuance. Past increases have been frozen and no such increases have been granted to those who have retired since 1968.

New York (Teachers)

No permanent provision. All increases are "supplemental" and are continued from year to year only by Legislative action. No such increases have been granted to those who have retired since 1968.

North Carolina (Combined)

Based on increases in Consumer Price Index (all items - United States City Average), annual increases are granted as follows:

Increase In Index	Increase in Allowance
1.00 to 1.49%	1%
1.50 to 2.49%	2%
2.50 to 3.49%	3%
3.50% or more	4%

Provided that any such increase in allowances shall become effective only if the additional liabilities on account of such increase do not require an increase in the total employer rate of contributions:

North Dakota (Employees)

No Provision

North Dakota (Teachers)

No Provision

Ohio (Employees)

1½% based on change in Consumer Price increase to persons who have been in receipt of benefits for at least 3 years.

Ohio (Teachers)

1½% per year effective at the end of the 36th month following retirement. Cost supported by an increase in contribution rate.

Oklahoma (Employees)

No Provision

Oklahoma (Teachers)

No Provision

Oregon (Combined)

2% per year based on Consumer Price Index. Funded by current employer contribution rate.

Pennsylvania (Employees)

No Provision

Pennsylvania (Teachers)

Rhode Island (Combined)

South Carolina (Combined)

4% per year if Consumer Price Index increase equals at least 3%. Payable from 18 months to 24 months after retirement. Provision limited to 1978, thereafter must be reconsidered from year to year.

South Dakota (Combined)

2% per year.

Tennessee (Combined)

Based on Consumer Price Index increases. A 1½% increase is granted in first year of eligibility (at least one year in retired status) and 3% per year thereafter. Funded by annual appropriations.

Texas (Employees)

No Provision

Texas (Teachers)

Utah (Combined)

Maximum of 4% per year, effective July 1, 1975, based on increase in Consumer Price Index (previously 1½%). Limited to a maximum of 4% of original retirement allowance. Allowances may also be reduced if Consumer Price Index shows decline of 4% or more. Cost of increase supported jointly by contributing members and employers.

Vermont (Employees)

Vermont (Teachers)

Virginia (Combined)

Every two years (coinciding with the beginning of the biennial fiscal period) the average Consumer Price Index for the preceding calendar year is compared to that of each of the two calendar years immediately prior to the year of determination. This produces two increase factors which are applied as in the following example. At the end of 1975, the average Consumer Price Index for that year is compared to the average Consumer Price Index for 1973 and an increase factor determined; the Consumer Price Index for 1975 is then compared to the average Consumer Price Index for 1974 and another increase factor determined. On July 1, 1976, members who had retired prior to 1974 will receive increases based on the 1973 factor and those who had retired in 1974 will receive increases based on the 1974 factor. The cost is funded by direct appropriation from the legislature.

Washington (Employees)

Based on annual changes in average Consumer Price Index - Urban Wage Earners and Clerical Workers. The cost-of-living factor shall not be:
(a) Less than 1.000;
(b) More than 103% or less than 97% of the previous year's cost-of-living factor; or
(c) Such as to yield a retirement allowance less than that which was in effect July 1, 1971.
Applies to base benefit - No Compounding. Cost of adjustments must be met by the excess of growth in assets over that required for meeting the actuarial liabilities of the system at that time.

Washington (Teachers)

3%, enacted in 1973, to be paid annually, provided that the Board of Trustees finds, at its sole discretion, that the cost of such adjustments can be met without increasing the employer contribution rate. No increase granted in 1975 and prospects are not good for the immediate future.

West Virginia (Employees)

No Provision

West Virginia (Teachers)

No Provision

Wisconsin (Employees)

No Provision

Wisconsin (Teachers)

No Provision

Wyoming (Combined)

TEACHERS' AND STATE EMPLOYEES' RETIREMENT SYSTEM
1974
COST OF ADMINISTRATION

State	Teachers	Employees	Membership	Administrative Cost	Cost Per Member
Alabama		X	38,000	$ 423,024	$ 11.13
Alaska	X	X	14,000	173,000	12.36
Arizona	X	X	105,340	785,168	7.45
Arkansas	X	X	40,000	(1)	
California		X	560,000	5,900,000	10.54
Colorado	X	X	86,991	970,900	11.16
Connecticut		X	(2)	(2)	
Delaware	X	X	26,330	150,129	5.70
Florida	X	X	430,000	1,697,675	3.95
Georgia		X	43,000	587,602	13.67
Guam	X	X	8,000	(2)	
Hawaii	X	X	44,471	425,864	9.58
Idaho	X	X	42,000	500,000	11.90
Illinois		X	95,000	(2)	
Indiana	X	X	70,000	(1)	
Iowa	X	X	137,000	(2)	
Kansas	X	X	110,197	690,287	6.27
Kentucky		X	(1)	(1)	
Louisiana		X	64,000	(1)	4.52
Maine	X	X	51,000	(1)	
Maryland		X	50,275	611,733	12.17
Massachusetts		X	68,000	314,805	4.63
Michigan		X	58,884	256,409	4.35

Minnesota		X	38,500	451,726	11.73
Mississippi	X	X	101,700	565,316	5.56
Missouri		X	(2)	(2)	
Montana	X	X	(2)	166,151	
Nebraska	X	X	32,550	(2)	
Nevada	X	X	(2)	(2)	9.60
New Hampshire	X	X	22,000	82,588	3.75
New Jersey	X	X	285,000	3,035,029	10.65
New Mexico		X	27,800	$ 250,000	$ 8.99
New York		X	640,000	7,300,000	11.41
North Carolina	X	X	215,994	1,009,944	4.68
North Dakota	X	X	(2)	(2)	
Ohio		X	254,000	2,440,536	9.61
Oklahoma		X	25,000	233,267	9.33
Oregon	X	X	110,000	715,728	6.51
Pennsylvania		X	150,000	(2)	
Puerto Rico	X	X	102,758	1,090,535	10.61
Rhode Island	X	X	45,000	300,000	6.67
South Carolina	X	X	(2)	867,000	
South Dakota	X	X	(2)	(2)	
Tennessee	X	X	45,150	209,190	4.63
Texas		X	88,500	450,000	5.08
Utah	X	X	(2)	(2)	
Vermont		X	4,500	(2)	
Virgin Islands			11,500	130,242	11.33
Virginia	X	X	230,000	(2)	

Washington		X	110,000	1,750,000	15.91
West Virginia		X	35,000	(2)	5.00
Wisconsin	X	X	90,000	936,305	10.40
Wyoming	X	X	20,000	(2)	
Average	(31)		3,890,390	$34,437,002	$ 8.85

(1) Per capita cost basis - cost not available.

(2) Not given.

10/15/75

GEORGE B. BUCK CONSULTING ACTUARIES, INC.
EMPLOYEE BENEFIT PLAN CONSULTANTS
TWO PENNSYLVANIA PLAZA, NEW YORK, NEW YORK 10001
212-695-2800

February 18, 1976

Mr. Terrence D. Sullivan
Committee Counsel
State of North Carolina
Legislative Research Commission
State Legislative Building
Raleigh, North Carolina 27611

Dear Mr. Sullivan:

As requested on January 7 by the Committee on Retirement System Matters, we are providing below an approximate breakdown, by major category, of our charges to the Retirement System of Teachers and State Employees', Local Governments, Law Enforcement Officers' and Firemen's Pension during the past two calendar years.

Regular Services Covered By Annual Fees	1975	1974
Valuation - Data Processing (Data Control, Data Entry, Programming, Machine Processing)	$32,500	$27,500
Valuation - Actuarial (including formal report)	13,000	10,000
General Consulting	9,400	12,350
Total	$54,900	$49,850
Special Services		
Cost Calculations - Data Processing	$ 3,500	$10,500
Cost Calculations - Actuarial	5,900	12,000
Consulting, including work on other than pensions	10,600	12,500
Total	$20,000	$35,000
Total Billings	$74,900	$84,850

Please note that there is a difference in the total amount billed each year based on our records as compared to your schedule prepared by the Fiscal Research Division, but we are in agreement in total for the two years combined.

In addition to the above data, let me clarify an item that was quoted at the meeting. We quoted our top hourly rate as $60; under our new fee structure, effective 1/1/76 the top rate is $65 per hour.

I hope this letter has provided you with the information that you need, but if you have any questions or require additional information, please let us know.

Very truly yours,

GEORGE B. BUCK CONSULTING ACTUARIES, INC.

Ronald J. Rossomando

By Ronald J. Rossomando
Director of Finance

RJR:PS

APPENDIX Y

A BILL TO BE ENTITLED AN ACT TO ESTABLISH A PERMANENT JOINT COMMITTEE ON RETIREMENT.

The General Assembly of North Carolina enacts:

Section 1. Chapter 120 of the General Statutes is amended by adding a new Article to read as follows:

"Article 15

Joint Committee on Retirement

"§120-110. Creation.--A standing committee is hereby created in the House of Representatives to be known as the Committee on Retirement. A standing committee is hereby created in the Senate to be known as the Committee on Retirement. The Committees on Retirement of each house of the General Assembly shall hold joint meetings as the Joint Committee on Retirement. The Joint Committee on Retirement is designated a joint committee of the General Assembly for purposes of Article 5A of Chapter 120 of the General Statutes, entitled "Committee Activity".

"§120-111. Duties of Joint Committee.--The Joint Committee on Retirement, with respect to public officers and public employees to whom State-administered retirement benefit or pension plans are applicable, shall:

(1) study the benefits, including those of the Federal government available to the public officers and public employees;

(2) consider all aspects of retirement and pension financing, planning and operation, including the financing of accrued liabilities of each retirement or pension fund;

(3) recommend legislation which will insure and maintain sound retirement and pension policy for all funds;

(4) analyze each item of proposed pension and retirement legislation in accordance with G.S. 120-112; and

(5) study, analyze, and cause to be prepared reports on related subjects directed to be studied by joint resolution, resolution of either house of the General Assembly, or by direction of the Speaker of the House or President of the Senate.

"§120-112. Analysis of legislation.--Every bill, which creates or modifies any provision for the retirement of public officers or public employees or for the payment of retirement benefits or of pensions to public officers or public employees, shall, upon introduction in either house of the General Assembly, be referred to the Committee on Retirement of that house. When the bill is reported out of committee it shall be accompanied by a written report by the Joint Committee on Retirement containing, among other matters which the Joint Committee deems relevant, an estimate of the cost of the proposed legislation, and an evaluation of the proposed legislation's actuarial soundness and adherence to sound retirement and pension policy.

"§120-113. Staff and actuarial assistance.--Upon application of the cochairmen of the Joint Committee on Retirement, the Legislative Services Commission shall provide staff, including actuarial assistance, to aid the committee in its work."

"§120-114. Rule of each house of the General Assembly.--This Article shall be considered to be and have the force of a rule of each house of the General Assembly until and unless a change has been made by an express enactment or an express rule of either house of the General Assembly."

Sec. 2. This Act shall become effective upon ratification.

APPENDIX Z

A BILL TO BE ENTITLED AN ACT TO MAKE APPROPRIATIONS TO THE LEGISLATIVE SERVICES COMMISSION TO PROVIDE ACTUARIAL SERVICES TO THE JOINT COMMITTEE ON RETIREMENT.

The General Assembly of North Carolina enacts:

Section 1. The sum of fifteen thousand dollars ($15,000) is appropriated for the fiscal year 1977-1978 and the sum of thirty-five thousand dollars ($35,000) is appropriated for the fiscal year 1978-1979 from the General Fund to the Legislative Services Commission in order to provide the Joint Committee on Retirement with professional actuarial assistance.

Sec. 2. This Act shall become effective on July 1, 1977.

State of North Carolina
DEPARTMENT OF THE TREASURER

EDWIN GILL
State Treasurer

LOCAL GOVERNMENT COMMISSION
HARLAN E. BOYLES
Secretary

ALBEMARLE BUILDING • 325 NORTH SALISBURY STREET • RALEIGH, N. C. 27611 • AC 919, 829-3064

December 3, 1976

Honorable Edwin Gill
State Treasurer
State of North Carolina
Raleigh, North Carolina 27611

Dear Mr. Gill:

As you know, during my campaign for the office of State Treasurer, I expressed a desire to work toward certain improvements in the Retirement System for retired members as well as active employees. I thought it would be well to express some of these in a letter to the Chairman of the Committee on Retirement System Matters of the Legislative Research Commission. A copy of this letter to the Honorable Glenn A. Morris is attached for your information.

The items mentioned in my letter to Mr. Morris do not necessarily indicate all the recommendations that the Board of Trustees and I will want to make. Incidentally, some of the items expressed in my letter have already been made by request of the Committee in the form of staff recommendations.

I will, of course, be discussing Retirement System matters with the Board of Trustees at subsequent meetings.

I extend to you my highest personal regards and look forward to our association over the coming years.

Sincerely,

Harlan E. Boyles

Harlan E. Boyles
State Treasurer-elect

HEB:ss
Enclosure
cc: Representative Glenn A. Morris
Members, Boards of Trustees
W. H. Hambleton

Deputy Secretaries

EDWIN T. BARNES	JOHN M. BARNES, JR.	EVERETT CHALK	DOUGLAS E. CARTER
Bond Authorizations	Bond Sales and Deliveries	Accounting Advisory Section	Program Development

State of North Carolina
Department of the Treasurer

EDWIN GILL
STATE TREASURER

325 N. SALISBURY STREET
RALEIGH, NORTH CAROLINA 27611

December 3, 1976

Representative Glenn A. Morris
808 Fleming Avenue
Marion, North Carolina 28752

Dear Representative Morris:

You are familiar with the fact that one of the important responsibilities of the State Treasurer is the administration of the Teachers' and State Employees' and Local Government Employees Retirement Systems, and to serve ex-officio as Chairman of the Board of Trustees of the Systems. Therefore, your Committee is, I believe, entitled to know of some of the contemplated recommendations I shall make to the General Assembly in early 1977. Briefly, the recommendations are as follows:

1. The objective and goal of the Retirement System is to reward our teachers and State employees by providing them with a secure and substantial retirement income. In order to fully accomplish this goal, the benefits paid to our retired members must be increased in a manner that would approximate the increase in the cost of living. I would urge that your Committee propose and support legislative provisions establishing actual cost-of-living increases on an automatic basis, funded with adequate reserves so as to preserve the financial soundness of the System.

   Actuarial gains should be used for maintaining the relative value of the payments to retired members so that retired members receive equal consideration with improvements and adjustments for active employees. And, of course, to the extent that actuarial gains are inadequate for cost-of-living increases and other appropriate adjustments for both retired employees and active employee, and I would urge that your Committee request and support additional funding from the General Assembly.

2. It has been common practice to provide some adjustments for retired members after major changes for active members. The improvements made in the 1973, 1975, and 1976 sessions of the General Assembly for active members were substantial. Therefore I would urge that your Committee propose a reasonable adjustment in benefits for all our retired members whose retirement was earlier than the effective date of these improvements.

3. I think it only fitting and proper that the General Assembly provide a portion of the cost for the premiums paid by the retired members for our group hospital and medical insurance. Many states and private employers already provide such payments. I would urge that your Committee propose and support a direct appropriation from the General Assembly to the end that the present comprehensive hospital-medical program can be afforded by our retired members. It does little good to provide for cost-of-living increases and at the same time allowing for a decrease in the retirement income of a member by increasing the cost of his hospital-medical premium.

4. The Board of Trustees now has only one retired member. It would be appropriate to have additional retired members serving on these Boards. I would urge that your Committee support legislation to provide for the Board of Trustees to have at least two retired members or other legislation that would provide for more equitable representation

You, of course, have my assurance that, as State Treasurer, my administration of the Retirement Systems will be one of sound and prudent management but at the same time an administration that is responsive to the needs of all our membership. I will welcome your suggestions or recommendations concerning the Retirement Systems or other State Treasurer's operations, and I look forward to working with you in the upcoming session of the General Assembly.

I might point out in closing that these recommendations have not been acted upon by the Boards of Trustees but I do plan to seek the concurrence of the Boards at their next meeting.

With kind personal regards, I am

Sincerely,

Harlan Boyles

Harlan E. Boyles
State Treasurer-elect

HEB:ss

cc: Honorable Edwin Gill
W. H. Hambleton
Members of Boards of Trustees
Senator Harold Hardison
Representative Claude DeBruhl

APPENDIX BB

STATE OF NORTH CAROLINA
LEGISLATIVE RESEARCH COMMISSION
STATE LEGISLATIVE BUILDING
RALEIGH 27611

December 13, 1976

Mr. William H. Hambleton, Director
Employees' Benefit and Health Benefits Division
Department of State Treasurer
Albermarle Building
Raleigh, North Carolina 27606

Dear Mr. Hambleton:

The Drafting Subcommittee of the Legislative Research Commission's Committee on Retirement Systems Matters held its second meeting on December 8 and 9.

At that meeting, the letter of the Treasurer-elect, Mr. Harlan Boyles, to Representative Glenn A. Morris, dated December 3, 1976, was discussed. That letter contained several proposals regarding changes in the benefits and representation of retired members of the Teachers'and State Employees' Retirement System.

The Drafting Subcommittee tentatively agreed to seven proposals. In view of the complexity of the present statutory scheme and of most of the proposals themselves, your division's expertise in the area, and the little time left to make the report to the General Assembly, it was suggested that your office be asked:

1. to supply actuarial estimates of the costs of the proposals for the next two fiscal years,and

2. to provide, with the aid of the Attorney General's Office drafts of legislation, including those for appropriations, to effect the proposals. Mr. Ducker agreed that your office would do this.

The Drafting Subcommittee tentatively agreed to propose the following courses of action regarding the Teachers' and State Employees' Retirement System:

1. to establish an automatic cost-of-living adjustment to allowances received by beneficiaries or surviving annuitants of a beneficiary. The features of this proposal are to conform generally with the current

practice for post-retirement increases in allowances which are specified in G.S. 135-5(o) with the following exceptions:

a) the adjustment is to reflect the actual increase or decrease in the cost-of-living index; however,

  i) no increase shall exceed 8% per year; and
  ii) a decrease in the benefits received in any particular year shall not exceed the total net increase received during the preceding 5 years;

b) the adjustment will be available to every beneficiary who has been on the retirement rolls for twelve months;

c) the adjustment will be applied as of April 1st of each year;

d) no adjustment shall be made which would reduce the allowance below the amount the individual was entitled to receive on the date that this cost-of-living adjustment provision becomes effective;

e) the language in the proviso contained in the third full paragraph of G.S. 135-5(o) relating to the tying of a post-retirement increase to no change in the employer's rate of contribution is to be deleted in the new cost-of-living adjustment provisions. These adjustments are to be fully funded by appropriations of the General Assembly on the same basis as are other benefits under the System.

2. to restrict the benefits of allowance formula increase changes, made subsequent to leaving service and prior to retirement, and of favorable cost-of-living adjustments to the member or beneficiary of a member who retires within 90 days of leaving State service, to beneficiaries who were entitled to receive unreduced benefits, and to surviving annuitants of a beneficiary.

3. to increase the membership of the Board of Trustees (G.S. 135-6) from 12 to 13 members--the new member to represent the retired members of the System.

4. to extend hospital and medical insurance coverage to two groups excluded from coverage under the present plan (G.S. 135-33). The groups to be covered are:

   a) the surviving unremarried spouse of a teacher or state employee who is receiving a survivor's

alternate benefit under G.S. 135-5(m); and

b) the surviving unremarried spouse, who has not yet obtained his 65th birthday, of a retired teacher or state employee.

5. to appropriate $15 per month per individual to subsidize hospital and medical insurance under G.S. 135-33 for the member or the beneficiary of a member who retires within 90 days of having State service, for beneficiaries who were entitled to receive unreduced benefits, and for surviving annuitants of a beneficiary.

6. to appropriate monies to fully fund the disability salary continuation plan (G.S. 135-34).

7. to make adjustments for retired members reflecting the changes in formula made for active members during the 1973, 1975, and 1976 sessions of the General Assembly. This proposal grew out of recommendation number 3 in Mr. Boyles' letter. The Committee asks that you inquire of Mr.Boyles his specific proposals in this regard, obtain estimates of the costs of implementing these proposals and drafts of legislation, including those for appropriations, to effect the proposals.

Because these proposals must go before the Subcommittee, then to the full Committee, and then to the Legislative Research Commission before January 12, 1976, I ask you to provide me with the requested material no later than December 22, 1976. Thank you.

Yours truly,

Terrence D. Sullivan (fyd)

Terrence D. Sullivan
Staff Attorney

TDS/fyd

STATE OF NORTH CAROLINA
DEPARTMENT OF THE TREASURER
EMPLOYEES' RETIREMENT AND HEALTH BENEFITS DIVISION
ALBEMARLE BUILDING
RALEIGH 27611

EDWIN GILL
STATE TREASURER

W. H. HAMBLETON
DIRECTOR

December 21, 1976

Mr. Terrence D. Sullivan
Staff Attorney
Legislative Research Commission
State Legislative Building
Raleigh, North Carolina

Dear Mr. Sullivan:

In your letter of December 13, 1976, you requested that we supply actuarial estimates of the cost of the proposals outlined in your letter for the next two fiscal years and to provide, with the aid of the Attorney General's Office, drafts of legislation which would effect the proposals. The cost figures, where they can be determined, are contained herein.

Some of the cost estimates, particularly with respect to cost-of-living increases, may change as a result of the 1975 Actuarial Valuation which is expected to be available to the Board of Trustees in January 1977.

None of the estimated costs contain any provision for salary increases which may be granted in 1977 and 1978 and, consequently, must be adjusted therefor.

Any cost-of-living increase granted under the Teachers' and State Employees' Retirement System will automatically accrue to the Judicial, Solicitorial, and Clerks of Court Systems and must be provided for.

We have prepared preliminary drafts of legislation to accomplish the proposed amendments to the provisions of General Statute 135. These, however, must be reviewed by the Attorney General's Office which will be done as soon as they are able to schedule the review.

It is always desirable, where possible, to keep the provisions of the Local Governmental Employees' Retirement System and the Teachers' and State Employees' Retirement System parallel. No mention was made in your letter of changes proposed for the Local System. Actual changes of significant magnitude should not be legislated without the approval of the participating units who are required to provide the necessary funding.

Cost estimates and comments follow.

The Employees' Retirement and Health Benefits Division includes the Teachers' and State Employees' Retirement System, North Carolina Local Governmental Employees' Retirement System, Uniform Judicial Retirement System, Uniform Solicitorial Retirement System, Uniform Clerks of Court Retirement System, Legislative Retirement Fund, Public Employees' Social Security Agency, and the Division of Health Benefits for Teachers and State Employees.

1. To establish an automatic cost-of-living adjustment allowance to retired members and their surviving annuitants equal to the actual increase or decrease in the cost-of-living index but not in excess of 8% per year.

	General Fund	Highway Fund
1977-78	$211,538,450	$24,918,660
1978-79	$218,307,680	$25,716,058

2. It is impossible to estimate the cost effect of Item 2 in your request. Out of 3,400 individuals retired in 1976 about 20 were of the vested deferred variety (those who had left service after becoming vested but who were required to defer retirement because of age or in some cases voluntarily). It appears to us that this issue has been blown out of proportion. Also, we are of the opinion that a provision requiring retirement within 90 days of leaving State service as a prerequisite to receiving post-retirement increases is much to restrictive. Many people through ignorance or choice, especially disability cases, do not act this promptly but should not be denied the benefit of post-retirement increases. Further, limiting post-retirement increases to those entitled to receive unreduced benefits, among other requirements, would deprive the people who need these increases most and about whom there is much concern today.

The following recent actual case in point, we hope, will illustrate the inequity of this proposal. A teacher with 24 years of service left employment in the Greensboro City Schools in 1961 at the age of 55. At that time, although fully vested, she was ineligible for early retirement both from the age and service standpoint. In 1963 this lady applied for a return of accumulated contributions at which time we advised her that she was entitled to a vested deferred benefit at age 60. She then requested that her application for refund be cancelled. In 1966, upon attaining age 60, she requested an application for retirement which was sent promptly. No action was taken by her although we attempted to follow up later with a reminder which was returned by the post office as undeliverable. We heard nothing further until October 1976, at which time at the age of 70 she had moved to a retirement home for the elderly in High Point, when she inquired about possible benefits. She was furnished with an application which she completed and returned in November. Her benefit, to be effective January 1, 1977, was calculated both under the money purchase plan and the formula; the former resulted in a monthly amount of $118.86 under the maximum plan and the latter $140.88. We have offered her the larger amount. Under this proposal, she would be restricted to the smaller amount which seems completely inequitable after 24 years of service and it is not really clear whether she would be entitled to post-retirement increases.

In our opinion, the granting of a vested right should carry with it entitlement to benefits that are available at the time of retirement together with any post-retirement increases granted after the date of

retirement. If the concept of vesting is good, it should provide the same benefits that are available to others. If the concept is not good, the period required for vesting should be lengthened. This, however, would be contrary to the national trend toward reduced vesting requirements and federal law as applied to retirement plans in the private sector. This would be far preferable to the further complication of an already complicated governing statute. Actually, vested short service individuals who leave service tend more toward the withdrawal of contributions than they do toward a deferred retirement benefit.

3. Item 3 would involve no additional cost with the exception of the cost for per diem and expenses for Board Meetings to be paid out of the administrative budget.

4. There would be no direct cost to the State to extend hospital-medical insurance coverage to the groups indicated in Item 4 if we assume that they will pay the full premium cost as for active members. However, if these groups are permitted coverage and if their adverse loss experience follows the pattern of the retired group, there would be some additional expense to the group as a whole which would be determinable only on an experience basis.

   If, however, the $15 per month per individual subsidy covered in Item 5 were extended to this group, the cost would be:

   (a) Surviving spouses of teachers and State employees who are receiving Survivor's Alternate Benefit allowance under the provision of G.S. 135-5(m).

	General Fund	Highway Fund
1977-78	$64,412	$7,589
1978-79	$69,565	$8,196

   (b) Surviving spouses, who have not yet attained the age of 65 years, of retired teachers and State employees.

	General Fund	Highway Fund
1977-78	$64,412	$7,589
1978-79	$69,565	$8,196

5. Cost to appropriate $15 per month per individual to subsidize hospital and medical insurance under G.S. 135-33 on present basis for members and beneficiaries of members not including those covered in Item 4.

	General Fund	Highway Fund
1977-78	$4,882,369	$575,232
1978-79	$5,311,348	$625,773

We strongly recommend the removal of the restricting language for the same reasons advanced in Item 2.

6. Cost to appropriate an amount sufficient to resume full funding of the Disability Salary Continuation Plan under G.S. 135-34.

	General Fund	Highway Fund
1977-78	$2,115,385	$249,187
1978-79	$2,183,077	$257,161

This covers everything with the exception of Item 7, the approach to which has not been resolved. We will try to have something to you by Monday or Tuesday on this point.

Sincerely yours,

W. H. Hambleton

WHH:ebs

STATE OF NORTH CAROLINA
DEPARTMENT OF THE TREASURER
EMPLOYEES' RETIREMENT AND HEALTH BENEFITS DIVISION
ALBEMARLE BUILDING
RALEIGH 27611

EDWIN GILL
STATE TREASURER

W. H. HAMBLETON
DIRECTOR

January 4, 1977

Mr. Terrence D. Sullivan
Staff Attorney
Legislative Research Commission
State Legislative Building
Raleigh, North Carolina

Dear Mr. Sullivan:

I have discussed with Mr. Boyles Item 7 of your letter of December 13, 1976 regarding an increase in benefit payments to members who retired prior to July 1, 1975 intended to compensate them for the improvements in the Retirement System which became effective in 1973, 1974, and 1975. We are in agreement on the following suggestions.

Representatives of the North Carolina Retired Governmental Employees' Association, Inc. have recommended a uniform increase of $15 for each year of service performed to all members who retired prior to July 1, 1975 and their surviving beneficiaries. We are not completely in accord with this proposal because it is contrary to the principles that have governed retirement allowances throughout the history of the Systems. These principles are that retirement allowances should be directly related to the salary and length of service of the member, taking into consideration the option elected at time of retirement. We can adjust for the option election but cannot overcome the salary level differential by using this method. Because of the request that such a proposal be made, we have prepared cost figures which will most nearly accomplish this. To grant such an increase equal to $9 for each year of service performed would cost approximately $6,292,000 per year if adjusted for the option election at retirement as follows:

	Per Year of Service
Maximum allowance, Option 1, and Option 4	$9.00
Option 2 and Option 6 coupled with Option 2	$6.30
Option 3 and Option 6 coupled with Option 3	$7.65
Option 5	$7.65
Surviving Beneficiaries under Option 3 and Option 5	$3.83

As a more equitable proposal, we endorse instead of the foregoing an across the board percentage increase of 7 percent to those who retired prior to July 1, 1975 which would amount to approximately $5,940,000 per year. This type of increase would overcome our objections to the other approach because the basic elements of the retirement allowance philosophy would be retained, the relative position of retired members and surviving beneficiaries would be preserved, and it would be administratively more feasible. We do not recommend going above 7 percent because this would come close to causing some pre-1976 allowances to equal or exceed those for members retiring in 1976 and subsequently.

These estimated costs do not include any allowance for a cost-of-living adjustment which may be made in 1977 because this is indeterminable at this time.

Also, we have again limited this to the Teachers' and State Employees' Retirement System and are making no proposal for the Local Governmental Employees' Retirement System for the reason advanced in our letter of December 21, 1976.

Sincerely yours,

W. H. Hambleton

W. H. Hambleton

WHH:ebs

CC: The Honorable Harlan E. Boyles

A BILL TO BE ENTITLED

AN ACT TO AMEND GENERAL STATUTE 135-6 TO INCREASE THE MEMBERSHIP OF THE BOARD OF TRUSTEES OF THE TEACHERS' AND STATE EMPLOYEES' RETIREMENT SYSTEM OF NORTH CAROLINA AS RECOMMENDED BY THE LEGISLATIVE RESEARCH COMMISSION'S COMMITTEE ON RETIREMENT SYSTEMS MATTERS.

The General Assembly of North Carolina enacts:

Section 1. G.S. 135-6(b), as the same appears in the 1975 Cumulative Supplement to the General Statutes, is hereby amended by striking out the number "12" in the first sentence and inserting in lieu thereof the number "13"; and further amended by striking out the number "Eight" in the first sentence of subdivision (3) and inserting in lieu thereof the number "Nine"; and further amended by deleting in line 10 of subdivision (3) the words "or State employee"; and further amended by adding after the semicolon in line 12 of subdivision (3) the words "one shall be a retired State employee who is drawing a retirement allowance, appointed by the Governor for a term of four years commencing July 1, 1977, and quadrennially thereafter;".

Sec. 2. This act shall become effective July 1, 1977.

APPENDIX EE

A BILL TO BE ENTITLED

AN ACT TO AMEND SECTION 135-33 OF THE GENERAL STATUTES RELATING TO MEDICAL AND DISABILITY BENEFITS FOR TEACHERS AND STATE EMPLOYEES AS RECOMMENDED BY THE LEGISLATIVE RESEARCH COMMISSION'S COMMITTEE ON RETIREMENT SYSTEMS MATTERS.

The General Assembly of North Carolina enacts:

Section 1. G.S. 135-33, as the same appears in the 1975 Cumulative Supplement to the General Statutes, is hereby amended in line 11 by inserting after the word "retirement" and before the word "may" the words ", his surviving spouse, and the surviving spouse of a teacher or State employee who is receiving a survivor's alternate benefit under G.S. 135-5(m),"; and further amended by inserting in line 15 after the word "dependents" and before the word "agrees" the words "or surviving spouse"; and further amended by inserting in line 17 after the word "employees" the words ", adjusted for any appropriation by the General Assembly for qualified individuals."; and further amended by inserting in line 19 after the word "spouses" and before the word "who" the words ", and the surviving spouses of teachers and State employees who are receiving a survivor's alternate benefit under G.S. 135-5(m),"; and further amended by adding in line 24 after the word "benefits" the words ", adjusted for any appropriation by the General Assembly for qualified individuals."

Sec. 2. This act shall become effective on the first day of the month next following its ratification.

A BILL TO BE ENTITLED

AN ACT TO APPROPRIATE FUNDS TO SUBSIDIZE HOSPITAL AND MEDICAL INSURANCE FOR RETIREES AND THEIR DEPENDENTS AS RECOMMENDED BY THE LEGISLATIVE RESEARCH COMMISSION'S COMMITTEE ON RETIREMENT SYSTEMS MATTERS.

The General Assembly of North Carolina enacts:

Section 1. There is hereby appropriated for the fiscal year beginning July 1, 1977 from the General Fund of the State the sum of five million eleven thousand one hundred and ninety-three dollars ($5,011,193) and from the Highway Fund of the State the sum of five hundred ninety thousand four hundred and ten dollars ($590,410) and for the fiscal year beginning July 1, 1978 from the General Fund of the State the sum of five million four hundred fifty thousand four hundred and seventy-eight dollars ($5,450,478) and from the Highway Fund of the State the sum of six hundred forty-two thousand one hundred and sixty-five dollars ($642,165) to the Health Benefits Division of the Department of State Treasurer to subsidize hospital and medical insurance under G.S. 135-33 for a beneficiary.

Sec. 2. This act shall become effective July 1, 1977.

A BILL TO BE ENTITLED

AN ACT TO APPROPRIATE FUNDS TO RESUME THE FUNDING BY THE GENERAL ASSEMBLY OF THE DISABILITY SALARY CONTINUATION PLAN (G.S. 135-34) FOR THE 1977-79 BIENNIUM AS RECOMMENDED BY THE LEGISLATIVE RESEARCH COMMISSION'S COMMITTEE ON RETIREMENT SYSTEMS MATTERS.

The General Assembly of North Carolina enacts:

Section 1. There shall be appropriated to the Health Benefits Division of the Department of State Treasurer an amount equal to .156% of payroll subject to retirement which shall be in the fiscal year beginning July 1, 1977 two million one hundred fifteen thousand three hundred and eight-five dollars ($2,115,385) from the General Fund and two hundred forty-nine thousand one hundred and eighty-seven dollars ($249,187) from the Highway Fund, and in the fiscal year beginning July 1, 1978 two million one hundred eight-three thousand and seventy-seven dollars ($2,183,077) from the General Fund and two hundred fifty-seven thousand one hundred and sixty-one dollars ($257,161) from the Highway Fund to resume the funding of the Disability Salary Continuation Plan for the 1977-79 biennium.

Sec. 2. This act shall be effective July 1, 1977.